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Analysis of CPC Press Manipulation

93CM0189A Hong Kong CHENG MING
[CONTENDING] in Chinese No 184, 1 Feb 93 pp 28-31

[Article by Yan Shan-ke: "The Party's Mouthpieces and the People's Flesh"]

[Text] As disclosed recently by TONGXUN, an internal publication of the General Office of the CPC Central Committee, RENMIN RIBAO has over 2,030 people on its staff, and each year fixed state financial subsidies amount to over 15 million yuan. In 1991 GUANGMING RIBAO received 4.9 million yuan in state financial subsidies, thus becoming the second largest financial loss-maker.

The CPC's Fear of Press Freedom

People of Beijing say: BEIJING RIBAO lies to Beijing; RENMIN RIBAO lies to the people; JIEFANGJUN BAO lies to servicemen; GUANGMING RIBAO does not bring light.

People from the news media in Beijing also complain that the policy on newspapers is: Small papers copy the big papers; the big papers copy the bulletins; the bulletins are produced by the leadership group; and the center issues calls to action!

Under the control of the CPC, the news media existed in this way for decades, showing no vitality whatsoever. From Mao Zedong to Lin Biao and Hua Guofeng to Deng Xiaoping, Hu Yaobang, Zhao Ziyang and Jiang Zemin, no CPC leader would mince his words in proclaiming in explicit laws and regulations: Newspapers and periodicals are the party's mouthpieces and the party's propaganda and public opinion tools. The purpose is to educate all in the party, in the armed forces, and in the nation, and to produce uniformity in political thinking and speech. It is absolutely impermissible to practice public-opinion pluralism and press freedom of that bourgeois kind. Otherwise, according to the argument, the party and the state will perish and people's heads will be chopped off.

It is exactly because of the fear of press freedom that the CPC has been efficient and successful in the use of mouthpieces and in controlling public opinion in the past decades. On the big and small newspapers and periodicals under its control, there is a lot of political propaganda, but little social news. Even when there is social news, the coverage tends to be uniform and contains only good news but not bad news, always describing the general situation as excellent. When there occur statements slightly out of line or when there occur literal errors, all copies of the newspaper of that day would be ordered kept in storerooms in less serious cases, and there was suspension of publication, internal rectification, dismissals, investigations, punishments, and reorganization of the leadership teams in more serious cases . . . The CPC's successful experience and secret recipe in this respect can be summarized in three points:

1. In normal times, newspapers are governed by the system under which the party committee assumes all operational responsibilities. The highest leading body of a newspaper is the newspaper party committee. The party committee exercises leadership over the editorial committee, and the party secretary exercises leadership over the editor-in-chief. Under the editorial committee, there are the political propaganda and theory department, domestic news department, international news department, correspondents department, mass relations department, economics department, literature and art department, and duty office of the editor-in-chief. There is a general party branch or party branch in each department or office, with the director being concurrently the secretary of the branch. Under the branches, there are party groups. All the editors, correspondents and even general staff members are CPC members or at least the party organization's recruitment targets. In this way, in the newspapers there emerges a situation of closely controlled reporting and editing where everyone, from top to bottom, exercises control over his own and where each level exercises control on its own. In other words, everyone becomes a part of the party's mouthpiece, and everyone is the party's propaganda and public opinion tool.

A Serious Matter Critical to the Party's Survival

2. In crisis times such as during the peak of high-level power struggles in the party and during social turmoil, those controlling the armed forces immediately introduce military control over such mouthpieces of the party as newspapers, radio stations, and news agencies, by stationing troops at those organizations and having military officers take over the positions of chief executive officers and editors-in-chief. Take a more remote example. In March-April 1966, on the eve of launching the Great Cultural Revolution to bring down Liu Shaoqi, Mao Zedong secretly ordered the mechanized crack troops—the 38th Group Army—to march down from north of Shanhaiguan to encircle Beijing, and had the 38th Army dispatch military takeover groups to suddenly take over RENMIN RIBAO, BEIJING RIBAO, XINHUA, and the radio stations during one night. As the high-level officials' conduct was imitated by the lower-level officials, soon afterwards the military came and took over all such mouthpieces as newspapers and radio stations across all the provinces, municipalities and autonomous regions nationwide. When Deng Xiaoping resumed key positions in the party, government and military at the central level in 1975, he promoted a division-level officer of the Nanjing Military Region to the position of Deputy Chief of the General Staff of the armed forces (Deng Xiaoping himself was concurrently Chief of the General Staff), a promotion much faster than usual. That person's name was Chi Haotian. Mao Zedong died on 9 September 1976, and in the early morning hours of 6 October, China's military arrested the gang of four headed by Mao's widow Jiang Qing at one scoop. It was General Geng Biao who was the head of the military control group sent by the Central Military Commission to take over the Central People's Broadcasting Station in the early hours of that morning.

and it was Deputy Chief of the General Staff Chi Haotian who was sent to take over RENMIN RIBAO. In mid-January 1987, when the CPC senior faction pressed its demands to the center and pushed for the removal of the liberal General Secretary Hu Yaobang, temporary military control over RENMIN RIBAO, XINHUA, and radio and television stations were also introduced so as to guard against the unexpected. In May-June 1989, a student movement and pro-democracy movement of an unprecedented scale broke out in Beijing. With support from people of the city, university students occupied Tiananmen Square in a peaceful manner. Inside the party a power struggle broke out between Deng Xiaoping and Zhao Ziyang. Meanwhile the 38th Group Army, the palace guards responsible for the security of the Beijing area, went so far as to refuse to take actions to suppress the student movement, while secretly supporting Zhao Ziyang. At this critical juncture, Deng Xiaoping could not but secretly move over 300,000 "save-the-king" troops from the seven military regions across the country to Beijing, surrounding Beijing with those troops, and introducing military control over newspapers, news agencies, and radio and television stations. It was General Shao Huaze of the General Political Department of the armed forces who was sent to carry out the military takeover of RENMIN RIBAO.

Political power grows out of the barrel of a gun; the gun gives one life; the gun controls the pen and the party's "mouthpieces." Mao Zedong once issued the following supreme instruction: To accomplish a task, it is necessary to do a good job of public opinion first. Lin Biao was even more frank: The gun and the pen are the two things on which one relies in seizing and maintaining political power! From the teachings of Mao and Lin, people can easily acquire the understanding that managing well the party's "mouthpieces" is really a serious matter critical to the survival of the party and its political power.

The State Coffer Gives Easy Access to the Media

3. The aforementioned two points serve to ensure the "manpower" for the party's "mouthpieces." In addition to "manpower," naturally, it is also necessary to devote huge amounts of funds without consideration of costs so as to ensure the financial capabilities for the party's "mouthpieces." In this regard, CPC leaders have always been generous and spendthrift.

The 10 December 1992 edition of TONGXUN, an "internal publication" of the General Office of the CPC Central Committee, carried a piece written by the Central Propaganda Department on reforming newspapers and periodicals, arguing: The official newspapers and periodicals of the party and government at the central and local levels should gradually break away from the perennial dependence on state financial subsidies and enter the market in a healthy shape, thereby becoming compatible with the situation where all in the party and in the nation are engaged in work centered around economic construction.

As disclosed for the first time by TONGXUN, RENMIN RIBAO now has over 1,800 people on its permanent staff, in addition to over 230 on-loan staff members, making a total of over 2,030 people. The fixed state financial subsidies amount to 20 million yuan annually. Monthly expenditures on business travels amount to as much as 500,000 yuan, and monthly expenditures on entertaining domestic and international guests amount to as much as 0.8-1 million yuan. For 1991 the overall financial expenditures of RENMIN RIBAO totalled over 35.7 million yuan.

It must be explained here that RENMIN RIBAO is a state-run enterprise/institution unit which does reporting, editing, printing and distributing. The newspaper's 1991 financial budget covered employee salaries, employee welfare expenditures, expenditures on paper, ink and replacement of printing machines, and administrative expenditures, which should total around 15 million yuan and be paid for with funds specially allocated in state fiscal plans. However, as over-staffing and the overlapping of bureaucracy resulted in both some people doing nothing and more people being employed than allowed by personnel plans, as prices for paper and other printing materials were on the rise, and as funds for guest entertainment and official business travels were used liberally and in a wasteful fashion, the funds allocated for the whole year were used up in the first six months. As a result, the state had to allocate an additional sum of 20 million yuan so as to continue the operation in the second half of the year. The question then is: Where did the newspaper's revenue from circulation go? As the CPC has always maintained that newspapers are the party's propaganda and public opinion tools, there is no consideration of cost or revenue. RENMIN RIBAO is published daily as a paper of eight pages printed on two sheets of paper. Before 1988 it was sold at the price of 8 cents a copy, or in other words, a cent a page. This was really the cheapest "mouthpiece" in the entire world. With the newspaper priced at 8 cents a copy, the circulation revenue was shared with the post office on a 40-60 basis. Thus the post office takes 4.8 cents of every 8 cents, leaving only 3.2 cents for the newspaper. In addition, there are various kinds of losses and the expenses relating to free copies. Consequently, the newspaper basically generates no income from the circulation of the paper. The party newspaper never carries commercial advertisements. As a result, RENMIN RIBAO is a loss-making enterprise totally dependent on state financial subsidies for its survival, and is also the only communist party "mouthpiece" claiming to have a daily circulation of 2 million in the entire world.

The Degeneration of GUANGMING RIBAO

As the internal publication also discloses, after RENMIN RIBAO, GUANGMING RIBAO is the second in terms of the amount of financial losses. In 1991 state financial subsidies amounted to 4.9 million yuan.

Before 1957, GUANGMING RIBAO was the only democratic party newspaper serving intellectuals after the founding of the new China. Its assets belonged to the Democratic League of China, and the Communist Party did not even own a single cent's worth of its assets. However, it was entirely because its editor-in-chief Pu Xixiu, its president Chu Anping and others wanted to serve the nation in their role as intellectuals and believed Mao Zedong's call for criticism of the party with a sacred promise of no attacks, no fault-finding, and no labelling that from the fall of 1956 to the summer of 1957 the newspaper published many "sincere statements" intended for helping the party rectify itself. But Mao Zedong suddenly turned around in the late summer of 1957, openly announcing that his three-no promise had been made only for the purpose of "inducing the snake to come out of its hole," and was part of a publicly announced political conspiracy! To catch the bandits, it is necessary to catch the ringleader first. Thus based on Mao's personal decision, the "bourgeois rightists" Pu Xixiu and Chu Anping as well as their behind-the-scenes bosses Zhang Bojun, Zhang Naiqi and Luo Longji were denounced all at once. At the Democratic League's paper GUANGMING RIBAO, from top to bottom, all the editors and reporters were denounced, and the paper was called a "base camp for the bourgeois rightists" and an "independent kingdom." Mao Zedong's cleverness lay in the following fact: The newspaper did not stop publishing for a single day but only changed its ownership status, becoming property owned by the Communist Party; the newspaper's personnel was completely replaced, and thus the paper became a "mouthpiece" under the Central Propaganda Department, praising the leaders for their kindness and service everyday and announcing everyday that the general situation was excellent. The leaders of the Democratic League such as Pu Xixiu, Chu Anping, Luo Longji, Zhang Bojun, and Zhang Naiqi were all sent to prison or labor camps. Who would dare to say no? Did not Chu Anping accuse the Communist Party of introducing the "total domination of the party?" Well, we have now simply confiscated GUANGMING RIBAO, and new China is exactly a country under the total domination of the Communist Party.

It is rather curious that during the 10-year Cultural Revolution, GUANGMING RIBAO, perhaps because of its background, was not given a key role by Mao Zedong and the gang of four, and did not join the ranks of the party center's "two newspapers and one journal" of that time (RENMIN RIBAO, JIEFANGJUN BAO, and the journal HONGQI), occupying the position of a second- or third-class "mouthpiece" only. Paradoxically, it was only at the time when the state was pushing for reforms and opening to the outside world after Mao's death that it became the public opinion battle position for such leftist high-level officials as Deng Liqun and Hu Qiaomu, and expressed opposition views from time to time. By coincidence, its status rose gradually. This paper, BEIJING RIBAO under Xu Weicheng's control, and HONGQI under the control of Xiong Fu and Wang Renzhi (that official journal of the CPC Central Committee was ordered closed by Zhao Ziyang after the 13th CPC Congress in 1988) were "crowned" the new "two

newspapers and one journal" in the intellectual circles in Beijing, and formed an iron public-opinion triangle, holding back reforms and opening up, and thus acquiring a very bad reputation.

Effective "Cultural United-Front Work"

Around 1985, the then General Secretary of the party, Hu Yaobang, listened to the petitions from many in the democratic parties, and suggested that policies should be implemented, that properties should be returned to their original owners, and that accordingly GUANGMING RIBAO should be returned to its original owner—the Democratic League of China. But Hu Yaobang's idea was vehemently resisted by the leftist ringleader Deng Liqun, then director of the Central Propaganda Department. Was it not clear that the measure proposed by Hu Yaobang would deprive Deng Liqun and Hu Qiaomu of their "mouthpiece?" In addition, it was even more difficult to implement Hu Yaobang's instruction at GUANGMING RIBAO. At the newspaper level there were whole bunches of people in the position of party committee secretary, deputy secretaries, and members, and at each department there were also general party branches, party branches and party groups. Was it not ridiculous to ask the party-member cadres from top to bottom to change their allegiance and accept the leadership of the Democratic League's Central Committee? Since being taken over and becoming a property owned by the Central Propaganda Department of the party in 1957, GUANGMING RIBAO had been in an unambiguous status, and would be the party's newspaper when alive, and a ghost under the party when dead. No one would be able to restore the paper to its original ownership status.

On the other hand, leading official positions at GUANGMING RIBAO are now truly plum positions in the CPC's central propaganda system. One can understand the secret here by only looking at the following figures: State financial subsidies for GUANGMING RIBAO amounted to 4.9 million yuan in 1991; and just one item of expenditures—that of entertaining domestic and international guests—was in the amount of as much as 2.3 million yuan. More than 230 banquets, receptions, and dance parties were given to people of all circles from inside and outside the country on behalf of the Central Propaganda Department (which could not appear as the host for its extremely bad reputation would frighten away the guests). There were only 365 days in 1991. In other words, GUANGMING RIBAO entertains domestic and international guests with dinners and parties on two occasions every three days as a surrogate host. The guests were mainly from Hong Kong, Taiwan, and overseas, and were mostly internationally renowned scholars, professors, leading figures of society, famous writers, artists, and sinologists. One can imagine how hard the leading comrades of the newspaper were working and how willing they were to toil. Eating the flesh of the people is only the surface of the matter; what is even more important is the cultural united-front work done for the party center. While dishes of fine and rare food and alcohol were being consumed, the patriotism

and profound friendship of domestic and international celebrities were solidified through talking to those people.

Subscription at Public Expense Results in an Astronomical Figure

Now let us look at the circulation situation of the party's "mouthpieces." Who pays for subscriptions?

Take again the example of the party center's official newspaper, RENMIN RIBAO, which claims to have a circulation of over 2 million. According to the latest data released by the Information and Publication Administration of China, for the first six months of 1992, individual subscribers only accounted for 2.5 percent of the total number of subscribers. In other words, of the total circulation of 2 million, only a share of 50,000 was accounted for by privately paid subscriptions. The question is: Who subscribed to the remaining 1.95 million copies? The answer is that the subscriptions were those of party, government, military, civilian, industrial, agricultural, commercial, and academic institutions across the country at public expense. There is a special Central Propaganda Department document explicitly stipulating that all township- or office-level units (including those of the section level under the office level, such units as the township court, police station, veterinarian station, hospital, cultural station, grain and oil station, farm machinery station, and central school under the township government are all section-level units) can subscribe to one official newspaper of the party center, one official newspaper of a provincial- or municipal-level party committee, and one or two political and current affairs monthlies at public expense, and that the major comrades in charge at county- or regiment-level institutions can also subscribe to the aforementioned newspapers and periodicals at public expense, as their work requires.

As a result, the 1991 expenditures of RENMIN RIBAO totalling over 35.7 million yuan were only one part of the flesh of the people eaten by this number one "mouthpiece"; another part of the flesh eaten by it, the cost of the 1.95 million subscriptions at public expense, results in another horrifying astronomical figure.

With regard to the "mouthpieces" under the control of provincial-, municipal-, prefecture- and division-level party and government institutions, such as YANGCHENG WANBAO, NANFANG RIBAO, and GUANGZHOU RIBAO, the over 30 prefecture and municipal party committees and over a hundred county party committees across Guangdong Province all have their own mouthpiece newspapers, which are all run with public money and subscribed to at public expense. Across China, there are large, countless numbers of such big and small party "mouthpieces." There is no way to calculate the costs paid for by governments at various levels with local finance, and to measure the amount of flesh of the people eaten.

Under the instruction of the General Office of the State Council, the Information and Publication Administration of China submitted the "Report on the Circulation of Newspapers and Periodicals Nationwide" on 3 December 1992. The report frankly admits the fact that nationwide 1,758 newspapers and 1,285 periodicals are published with authorization (based on statistics prepared before October 1992). In 1991 the central government and local governments at various levels provided those newspapers and periodicals with as much as over 136 million yuan in financial subsidies. Aside from such publications as in the digest, life and sports categories, the newspapers and periodicals under the control of local party committees and governments as well as local trade union, Communist Youth League, youth, and women's organizations are all published with state subsidies. In this regard, each year the state has to provide subsidies in the amount of 0.3-3 million yuan for each official newspaper of a provincial, municipal or autonomous-region party committee and government. Routine travel and guest-entertainment expenditures account for 44-55 percent of the routine expenditures, representing an amount higher than that of employees' base salaries.

Many Nonpublicly-Circulated "Mouthpieces"

The discussion above is just about how the publicly circulated party newspapers and periodicals eat up the flesh of the people, but this is only the tip of the iceberg. The CPC has also "mouthpieces" of a nonpublicly-circulated kind, which are the numerous internal publications—tens of thousands of internal publications issued by institutions of the county- or regiment-level or above, such as NEIBU TONGXUN, QINGKUANG JIANBAO, YAOSEN CANKAO, TONGXUN BAODAO, LILUN YANJIU, SIXIANG DONGTAI, GONGZUO JIANKUANG, XUESHU DONGTAI, SHICHANG BAOGAO, YEWU DIAOCHA, etc. It is even harder for an outsider to have an idea about how much money is spent on these publications and how much waste is involved. The CPC organizations of the prefecture- or division-level and above as well as large state-run plants, mines and other enterprises have each a complete set of printing machines and several printing workers to do the printing for such internal "mouthpieces." We really have to give credit to the CPC for its meticulous, careful consideration with regard to controlling the public opinion and people's thinking.

A huge sum is spent on the publishing of all kinds of publicly circulated and internal "mouthpieces" of the CPC, and another huge sum is spent on the subscription at public expense made by institutions and personnel at all levels to those "mouthpieces." Only putting the two sums together can one arrive at the total amount of people's flesh eaten by those big and small party "mouthpieces" every year and every month. It will be up to the political economists of the future to generate statistics on, and calculate, what the total amount of people's flesh eaten in this regard is.

Party's Mouthpieces Will Become Illegal Publications

Amidst the great tides of reform and opening up, the news workers under the CPC's strict control are beginning to wake up, and becoming increasingly disobedient to the party's wills. A former editor-in-chief of RENMIN RIBAO once commented sadly to an American reporter that RENMIN RIBAO only gets the date right each day.

In the days and nights during the peak of the pro-democracy movement in Beijing in May 1989, the streets of Beijing saw demonstrations with over a million participants several times. News workers of China broke down layers of barriers, and went to the streets with their hands holding high banners and signs, joining the great tide of the student movement and pro-democracy movement. Tens of thousands of employees of such news organizations as RENMIN RIBAO, XINHUA, ZHONGGUO QINGNIAN BAO, BEIJING RIBAO, and XIN GUANCHA boldly demonstrated their moral courage and political conscience. The slogans on their banners and shouted by them were: Don't Force Us to

Lie Again! Don't Force Us To Lie to the People Again! News Should Be True! Press Independence! Press Freedom! When the CPC's senile autocratic officials saw the banners and heard the slogans on the television screen, they all seemed to become living corpses and incontinent.

It is said that the KMT is willing to spend money on everything except propaganda, and that the CPC has no money for anything except propaganda. What a witty remark!

What makes us optimistic is that continuing development of China's economic reform and opening up as well as people's pro-democracy movement will inevitably lead to political reform and democratic changes. The first step of political reform will inevitably be the practice of press freedom. At that time, people will naturally view the special product of the politics of one-party rule—the party's "mouthpieces"—as illegal publications. The people's mouthpieces, signs of a new era of China, will certainly be born on the mainland!

NATIONAL AFFAIRS, POLICY

Dong Fureng Comments on Potential for Inflation
93CE0409A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 10,
15 Mar 93 pp 9-11

[Interview with Professor Dong Fureng by reporter He Shiyao (6320 1597 1031) and special correspondent He Xu (0149 3563); date and place not given: "Do Not Think That There Is No Present Danger of Inflation"]

[Text] Lately, people have been quite concerned about the current state of the economy and financial matters. In particular, they have been concerned about whether inflation will strike this year, a topic that has increasingly become a focal point of attention. Numerous views have been expressed in the various news media of late, critics and commentators have put forth widely divergent positions on the matter, and it can be predicted that the topic will merit much discussion at the upcoming National People's Congress and the Chinese People's Political Consultative Conference.

On the eve of the first plenum of the Eighth National People's Congress, our reporters put the issue to Professor Dong Fureng [5516 6534 4356] who was a member of the Standing Committee of the Seventh National People's Congress, vice-chairman of the financial and economic committee, as well as being a well-known economist.

Inflation Actually Exists and Shows Signs of Worsening

[Reporter] In 1992, the Chinese economy moved rapidly ahead, with the GNP growing 12.8 percent over the previous year. Looking at the behavior of the Chinese economy since the advent of reforms, rapid economic growth has usually been accompanied by fairly serious inflation. So, the people are worried about the onset of a new bout with inflation. What are your thoughts?

[Dong Fureng] I think we must acknowledge these two facts: First, everyone enjoyed enormous success in last year's rapid economic growth. Industrial output value grew 20.8 percent over the previous year, the single greatest annual leap since the advent of reform and opening up. Agricultural output value grew 3.7 percent over the previous year, and the total amount of retail social commodities grew 15.9 percent beyond the previous year. This stands in stark contrast to the performance of the world economy that remains bogged down in recession.

Second, we did, in fact, experience inflation last year. Retail commodity prices rose 5.4 percent. This indicator may not seem high, but the reason is because there are certain limits in the current retail commodity price index. Grain and grain-related finished goods account for over 80 percent of the standard commodity price calculations, while many production material prices and service costs are not

included in the calculation. So, it is inaccurate and short-sighted to use this indicator to assess inflation levels. Although China still does not have a nice composite index like the GNP to reflect the level of inflation, we can use various pieces of data to observe the current level of inflation. Last year, the cost of living rose 6.4 percent, and 35 large- and medium-sized cities experienced cost of living increases of upwards of 10.9 percent. Service costs grew 13.4 percent, while in the 35 large- and medium-sized cities they rose 21.3 percent. The cost of energy resources and raw materials grew 11 percent.

It is particularly worth noting that, since the beginning of the second half of last year, commodity prices have made gradual monthly increases. In the 35 large- and medium-sized cities, retail prices this January were up 14.7 percent compared to the previous January.

Although we are faced with inflation that some label "not too serious," yet many people expect changes to happen, and in some areas there is panic buying of foreign exchange, gold jewelry, and even such things as knitting wool and knitwear. So, I think that the worsening inflation we now see is cause for vigilance.

The Causes of Inflation Are Many

[Reporter] In your estimation China is already in the throes of inflation. What are the main causes of this bout of inflation?

[Dong Fureng] The way I see it, the major causes of this inflation are: First, fixed asset investment has grown too quickly, and from the demand side it has pulled commodity prices up. Last year in China, completed fixed asset investment grew 37.6 percent beyond the previous year's level (the second major investment wave since the advent of reform liberalization), and this outpaced heavy industry growth by 16.9 percent. Since this causes marked shortages in the supply of production materials, last year we had increased supply shortages in 21 major types of materials such as coal, oil, and steel products, and the stores of 18 types of materials fell and so the prices of production materials rose. Last year, the prices of some materials like cement and construction steel rose 80 to 100 percent. Another effect of the expanded scope of fixed asset investment is increased investment of cash, since under normal circumstances, about 40 percent of fixed asset investment translates into the use of cash.

Second, the financial deficit has been high. Last year, the financial deficit hit 23.7 billion yuan (renminbi, not including domestic bonds and foreign loans). This was 2.9 billion yuan beyond the budgeted deficit. Although the nation's financial deficit remains within the scope of the budget, this part of the deficit will have to be shored up by bank loans. This will increase the amount of currency put into play by banks.

Third, enterprise profits have still not gotten better fundamentally. Although industrial profits last year got better after slipping for several years, economic results on the whole remain low.

Fourth, there has been incredible growth in every sort of method of direct capital consolidation. Because of the development of numerous nonbanking sources of credit, we have seen an increase in overall credit and currency supply. If banks could now pull back on credit extensions to a corresponding degree, the overall effect on currency supply would not be major. Yet, this is where our problem is—the increased amounts of social credit not only are incapable of lessening the demand for bank loans, but the contrary is true. Since this societal credit is being employed mainly in fixed asset investment, there is still a demand for banks to increase the supply of circulating capital to complement the societal credit. So, we end up with bank credit and societal credit both growing larger.

For precisely this reason, there is a strong tendency for loans to grow and for too much currency to be issued. At the end of last year, the amount of currency in circulation in the marketplace grew 36.5 percent beyond the previous year's level. This greatly exceeds the 12.8 percent growth of the GNP. This created inflation and pulled up commodity prices.

Everything that I have said up to this point is meant to show that there remain direct causes of inflation at work. The fact of the matter is, the root causes of our inflation can be traced to aspects of our economic system and even of our political system.

This Year We Are Still Faced With Formidable Inflationary Pressures

[Reporter] People have made various forecasts with regard to inflation this year. Some feel that our economy is going to be hit with severe inflation this year, with overall commodity price levels rising more than 10 percent. Others estimate that serious inflation this year is unlikely, and that overall commodity price levels will probably rise roughly eight percent, well within a scope that the nation, enterprises, and consumers can handle. What are your thoughts on inflation this year?

[Dong Fureng] I talked about this already. In 1992, too much currency was put into play. Despite the fact that at present there are objective factors that would call for increased supply of currency, things such as the accelerated growth of the economy and the greater rate at which the economy revolves around commodities and currency, such as wider territories into which currency circulates, and such as the way certain things that are not made into commodities and that heretofore had no "value" (like land, housing, technology, information, intellectual property rights, and stocks and bonds, etc.) have now become commodities and require currency and its exchange as a medium; despite the fact that last year excessive currency was put into play and higher commodity prices have completely nullified it or even

devalued it a bit, yet, a considerable slice of the excess currency that was put into play last year will carry over into this year, causing pressures for commodity price hikes and inflation. At the same time, last year's hikes in production material costs will gradually translate into higher costs for downstream products. Thus, last year's inflationary pressures are certain to build up and boil over this year and in years to come.

Again, looking at macroeconomic activity this year, I see sizeable inflationary pressures. Last year, new project start-ups grew considerably, and at year's end there was a corresponding increase in the number of unfinished projects. This could cause continued growth in investment this year. With the transformation of government functions, investment policy-making powers are shifted to lower levels and the various local governments and enterprises all get fairly broad powers of investment autonomy. Yet, the mechanisms for self-guided investment restraints have not been fully created. Thus, there are considerable drives in local government and enterprises to increase investment, and investment will continue to greatly expand this year. In the real world of the Chinese economy, currency supply is, to a great extent, determined by the scope of investment. If the scope of investment is not kept under control, then it is difficult to control growth in the currency supply. Also, our financial situation this year does not give cause for optimism. I am going to present the facts in a detailed report in the budget talks at the upcoming National People's Congress. Because of rigid spending and heavy erosion of financial income, such as the estimate by some that one or two billion yuan is lost in profits from the transfer of use rights to state-owned land, and such as the incalculable amounts involved in stolen taxes, tax evasion, withheld tax reporting, indiscriminate reductions in tax payments, waste, etc., our current financial times are not happy ones, and a certain financial deficit is unavoidable. All of this could exacerbate credit growth and excessive currency issues, increasing the inflationary pressures this year. I feel that to ignore these things and to deny that the danger of inflation now exists is to be unobjective and unrealistic.

Given Appropriate Ajustments and Controls, Severe Inflation Can Be Averted This Year

[Reporter] Since China is now facing considerable inflationary pressures, what measures do you feel should be taken to avoid or lessen the pressure?

[Dong Fureng] Let me first state that, by saying that China faces serious inflation this year, I am not saying that we are going to have severe inflation this year like we had in 1988. There is no reason to anticipate impending doom or to be panic-stricken. My intent is to show that there exists the possibility of inflation and that this possibility is, in fact, quite removed from actual crushing inflation.

We must note that within China's economy this year there are significant latent inflationary pressures. Yet, at

the same time, our economy contains many strong elements that can lessen the pressures of inflation. For example, there are abundant sources of consumer goods, a full line of product varieties, and markets are stable; given no major natural catastrophes, agricultural production will continue to steadily grow; reforms are accelerating in the housing system and the social security system, the issues and circulation of various stocks and bonds are expanding, and all of this increases the outlets for consumer spending and helps lessen market pressure; with greater reform on all fronts, the scope of market regulation is clearly increased, and internal economic stability and options grow; having survived the storms of past years, city and town dwellers can better handle the prospect of inflation and economic change. This list is endless, and because of these things, latent inflationary pressures this year are not going to translate into actual inflation in an immediate or wholesale fashion.

Another very important point is that the severity of the inflation problem since last year has attracted the heightened vigilance of leaders in the central government. Beginning with the second half of last year, the central bank deliberately began controlling the scope of loans. I feel that if measures take strong hold and if adjustment and control is done to a suitable degree, then this year we will not have severe inflation.

If we hope to contain or avoid severe inflation, then, in general, we need numerous countermeasures. On a broad level, we must continue reforms of our economic system, including reforms in such areas as enterprises, government finance, tax collection, capital, and investment. We must improve economic relations between all parties, and actively build up markets, and in particular, we must make great efforts to expand the securities markets. More specifically, we must give greater independence to the central bank, and sever it from the commercial and policy-type banks. We must put tighter restraints on enterprise budgets and do more to micro-manage tax collection work, etc. These are points that I raised years ago and have consistently called for. There is no more need to discuss them at this point.

Here I would particularly like to emphasize two things: First, steady development of the stock ownership system is a wonderful way to combat inflation (and of course, the effects of stock ownership go far beyond this). By transforming state-owned enterprises into the stock-ownership system, and by selling stock to the people, large amounts of currency can be garnered, thereby effectively guiding the people in their use of currency, stabilizing currency circulation, and containing commodity price hikes. Thus, in this sense, I stick to the view that I have long propounded—actively and safely changing large- and medium-sized state-run enterprises over to the stock ownership system. Let me say a few more words about this, by the way. There are now some who feel that, without successful experience, without market mechanisms, and without a perfect legal and systemic environment, it is impractical to promote the stock ownership system. I take serious exception to this

view. I feel that the stock ownership system trials in the last few years have been successful. The vast majority of the enterprises that have gone to stock ownership have enjoyed considerable growth. Of course, in the stock ownership experiments certain problems were bound to crop up. But they were the exceptions to the rule. Development of the stock ownership system abroad has enjoyed several hundred years of history, and a well-developed set of responsive and complete standards have been put in place. We can fully draw on this experience. So, I feel that those who want to wait around for whatever conditions before implementing the stock ownership system are the ones being impractical!

Second, the pros to raising interest rates rates outweigh the cons. In light of the fact that, in certain large- and medium-sized cities, negative interest rates are already in place, I would advocate boosting interest rates to the appropriate degree. Although this could increase the burden on enterprises, it could also act as a type of pressure, forcing enterprises to improve management and administration and improving the efficiency of capital use. More importantly, higher interest rates would help stabilize savings and act as a certain check on inflation.

Finally, I also want to reiterate that, just because the retail commodity price index is at a moderate level, this does not give us reason to feel that there is no current danger of inflation, and thereby fail to adopt the necessary measures to put appropriate controls on the scope of investment and currency supply. Just because we now face considerable inflationary pressures, we should not adopt draconian, indiscriminate policies to restrict currency supply. Similarly, we must be aware of the fact that, today, achievement of so-called "zero inflation" is unrealistic.

Liao Jili on Reform of Management System

93CE0420A Beijing ZHONGGUO JINGJI TIZHII
GAIGE [CHINA'S ECONOMIC STRUCTURE
REFORM] in Chinese No 3, 23 Mar 93 pp 16-17

[Article by Liao Jili (1675 1323 4539): "Some Ideas About Macro-Management Under the Socialist Market Economy"]

[Text] The decision to take the direction of building a socialist market economy is of vital and far-reaching significance to the development of China's productive forces and continuation of its economic structural reform. At present, the emphasis of reform is on the formation of a dynamic and efficient enterprise system and the establishment of a new macro-management system suited to the resource-allocation method that depend mainly on the market force. Apparently, our efforts at the latter task are lagging. This article gives some views in this respect.

Scope and Demands of Macro-Management

—Management of macro-planning and development strategies. Primary work in this regard is to properly solve such questions as medium- and long-term development strategies, balance between the total supply and demand, proportions of growth between principal economic sectors, major industrial policies, and rational distribution of productive forces. In particular, it is necessary to firmly ensure that the scale of development is appropriate and that the total supply and demand are balanced. This is the focal task of macro-management.

—Management of policies. The essence of policymaking is to set up criteria for market and enterprise activities. Policies should be scientific and stable. We should not establish a policy in the morning and change it in the evening. Nor should we just act in accordance with the desires of higher-ups in formulating policies.

—Management of economic levers. Economic levers and parameters should be used to regulate the interests of various sectors, the industrial structure, and economic activities.

—Management of markets. The government should take steps to foster and improve the market system and break down barriers and blockade between different regions and departments. It should see that a nationwide unified market system characterized by competition on equal footing and governed by sound regulations is established and made perfect. It should also disseminate timely market information, strengthen market management, and prohibit illegal operations and improper competition.

—Management of public facilities and welfare programs and rendition of related social services.

—Management of social security work. The government should take measures to form and make perfect insurance systems for old age, unemployment, medical care, industrial injury, and childbirth.

—Management of work on the construction of the legal system. The government should enact in good time laws and regulations to guarantee the normal operation of the economy. It should improve the law-enforcement force, enhance the dignity of law, and make sure that law-enforcement procedures are followed to the letter.

Setup of Administrative Organs

The setup of administrative organs should be commensurate with the change of the government's macro-management functions. The goal is "a small government but a great society." At this stage, particular efforts should be devoted to three tasks: First, establishment of a supreme leading organ in the financial and economic field. Second, enhancement of overall management and supervisory departments. Third, reduction of specialized departments. After the reform of administrative organs, we should have six major departments. They are: 1) the economic policy-making department, which draws up policies on planning, investment, and production and which conducts strategic

studies of the distribution of productive forces and the reform of the economy; 2) the economic adjustment department for making adjustments in the fields of finances, taxation, banking, commodity prices, labor, and wages; 3) the state asset management department for managing the nation's mining industry, construction sites, premises, and other assets; 4) the economic supervisory department, whose work includes industrial and commercial administration, statistics, accounting, auditing, and supervision; 5) the science and technology department for managing and developing the work of science and technology; and 6) the information and report department, which includes all kinds of information centers and counseling organizations.

Specifically, the issue of the setup of administrative organs can be dealt with in three ways: 1) Work related to the above-mentioned six major departments should be included in their respective domains. Power to be decentralized should be delegated to lower levels as much as possible. 2) Production and business entities should be established to take care of the work of production and business operations. 3) Work that can be put under social management should be undertaken by intermediary organizations in society.

Acceleration of Market Cultivation

From the viewpoint of the state enterprise-market relations, the market should be subject to regulation and control by the state. It is also the carrier through which enterprises conduct their operational activities. Because of this, accelerating market cultivation and giving full play to the role of all kinds of markets are of key importance to the transformation of the government's macro-management system. We should, first of all, energetically develop various types of commodity markets with emphasis on building wholesale markets at the moment. Futures trade is a comparatively advanced form of business, which is bound to appear when the commodity economy has developed to a certain stage. Now, although conditions are not ripe for a full-fledged development of futures trade, it is quite necessary to launch some test and exploratory projects in this respect. Also, establishment of futures exchanges will provide us with fixed and standardized marketplaces with which we can fully reform the current goods-ordering-meeting system. Meanwhile, studies of intermediary organizations in commodity circulation, such as brokerage agents, auction shops, and pawn shops, should be put on the agenda so that their legal status and due obligations can be determined and relevant laws and regulations can be formulated. Additionally, it should be stressed that all social sectors are encouraged to invest in building markets of one kind or another. In this regard, the principle that "returns go to whoever made the investment" should be carried out. The methods for building markets may be diversified. In particular, we should encourage and advocate building markets by using available places, according to local conditions, and with funds raised from

diversified sources. No matter what kind of commodity market it is and who builds it, the principle of unification, opening, and competition on equal footing should be adhered to. Resolute efforts should be made to prevent blockade between different regions and departments, a practice that could result in monopoly, either above the board or in disguised form.

Compared with the robustly developing commodity markets, the growth of production element markets is apparently lagging. At the appropriate time and in line with the change of the situation, we should shift the focal point of market cultivation to production element markets. Work in this respect includes fully opening the labor market, developing a number of technology markets and intermediary organizations with different functions, proceeding with a full-scale reform of the compensatory system for the use of land, establishing standardized real estate markets, breaking down inter-regional and inter-departmental barriers, and developing open-type information markets. Markets for property rights and other production elements should also be developed at a faster pace so that they will fit in with the nation's unified market system.

Organization of Economic Activities According to Economic Zones

The concrete idea of organizing economic activities according to economic zones is as follows: We should break with departmental and regional compartmentalization, and where conditions permit, establish secondary macro-regulation and control organs according to economic zones. For instance, secondary macro-regulation and control organs may be established in the Zhu Jiang Delta, Chang Jiang Delta, Bo Hai rim area, and southwest, northwest, and northeast China, as well as economic centers and major commodity distributing centers that have been in existence as a result of economic activities in the past. Meanwhile, we should draw up policies to encourage various regions to join hands in making investments in cooperative development projects. The State Planning Commission should include the development of economic zones in its long-term development program, formulate policies to foster their growth, and make overall infrastructure construction plans to support their development. Eventually, the following economic zones should be established: the Zhu Jiang Economic Zone with Guangzhou as the center, the Chang Jiang Lower Reaches Economic Zone with Shanghai as the center, the Chang Jiang Middle Reaches Economic Zone with Wuhan as the center, the Chang Jiang Upper Reaches Economic Zone with Chongqing as the center, the North China Economic Zone with Tianjin as the center, the Northwest Economic Zone with Xian as the center, the West Economic Zone with Urumqi as the center, and the Northeast Economic Zone with Shenyang, Dalian, and Harbin as the centers. Altogether, about 10 such economic zones may be established around the country. The above are economic zones on the Chinese mainland. After the return of Hong Kong and Macao to the motherland and the reunification of

the two sides of the Taiwan Strait, another economic zone, the "China Economic Zone," may come into being as a giant open area in South China.

Socioeconomic Intermediary Organizations To Be Strengthened

All kinds of intermediary organizations are nongovernmental but have varying degrees of official tint. Because of this, they can serve as bridges and links between the government and enterprises. On the one hand, they should reflect the voice and requests of enterprises. On the other hand, they should perform certain managerial functions as guided or commissioned by the government. All in all, they should display a linking role between the government and enterprises.

Generally speaking, there are three types of intermediary organizations:

The first type consists of those with a supervisory function. Examples are accountants' offices, attorney offices, public notary offices, patent offices, and commodity inspection offices. The second type covers those offering certain kinds of services, such as employment agents and counseling companies. The third type comprises autonomous organizations of enterprises, including guilds, trade associations, and chambers of commerce.

It is quite necessary to develop the autonomous organizations of enterprises. To achieve development, enterprises must be organized into self-governing economic groups. Currently, guilds, trade associations, and similar organizations formed by enterprise have appeared one after another across the country and are playing a certain role. On the whole, however, these organizations are imperfect and nonstandard. Some have become a mere formality. Others have become secondary administrative organs of certain government departments rather than real autonomous organizations of enterprises. State legislation is required and relevant rules and approving procedures should be drawn up so that authentic autonomous organizations may be established.

More Efforts Required for Building a Democratic Legal System

The market economy is an economy based on the legal system. In promoting competition on equal footing, for example, there must be some rules; otherwise, competition will be anarchic. Under the condition of a socialist market economy, we have every reason and condition to operate the market mechanism more orderly and reduce the fluctuation, arbitrariness, and lopsidedness that are commonly associated with the market economy. To protect the initiative of enterprises and maintain the stability and prosperity of the market while ensuring an orderly state of competition on equal footing, several tasks deserve our particular attention at this time: First, we should attach importance to propaganda and education about the legal system so as to transform the

traditional concepts. Second, we should change the managerial method from using administrative measures to relying on legal means. Third, we should break with departmental and regional compartmentalization and speed up the enactment of relevant laws.

PROVINCIAL

Guangdong Bans New Development Zones

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23 Mar 93 p 1

[Text] This year, Guangdong has decided to temporarily stop accepting applications for opening up new development zones. It reaffirms that only the province and the state have the authority to approve the establishment of development zones. Counties and cities are not in the position to do so. Guangdong will soon conduct an overall inspection of existing development zones.

Guangdong has the greatest number of development zones in the country, with a high concentration of them in the special economic zones and in the Pearl River Delta. In the past decade or so, all kinds of development zones have sprung up. Economic and technological development zones, hi-tech development zones, industrial development zones, poverty-assistance zones, mountainous economic development zones, tertiary industrial development zones, and mini-industrial zones, etc., have mushroomed in Guangdong. The establishment of these development zones has brought about a situation where the development of agriculture, science and technology, regional economy, and the improvement of investment environment become a properly distributed, scientific and orderly structure. In terms of trends, some development zones have taken the embryonic shape of "Silicon Valley" industrial zones. There are, however, also problems of inadequate planning, irresponsible approval, and poor efficiency in other development zones. Quite a lot of farmland was improperly occupied. The peasants indiscriminately left their land, leading to the situation where peasants do not farm and woman weavers do not weave.

Starting this year, Guangdong tightened control over the use of farmland with strict rules in regard to the approval of land use for nonfarming purposes. A mandatory annual quota system was imposed for the occupation of farmland in counties and cities. No counties or cities are allowed to give approval to the use of land; nor are permitted to exceed their allocated quota. The province will soon inspect those development zones occupying farmland and nonagricultural projects. Those who illegally took the farmland will be severely punished. Development zones approved by the state or the province are required to operate under a unified planning system, develop their land step by step for immediate effects. Those without projects, funds, or efficiency for the operation of development zones must dissolve immediately and return the land to agriculture. Oversized development zones taking too much farmland will be

inspected one by one. Where high buildings can be constructed, land will be allocated accordingly. Such development zones have to return their extra land previously allocated to them. Peasants are allowed to farm the land on which a development zone is approved yet not under operation. Wherever farmland is left unfarmed as a result of city construction or development zones, persons involved will be penalized according to relevant rules of state land management agencies. In the wholesale style development of mini-industrial zones by township enterprises, plans must be carefully made to improve investment environment, and to use the least land possible. These zones can not be labeled development zones. This year, Guangdong will make laws to set up permanent reservations for agriculture to stabilize the size of farmland for a certain period of historical time.

Guangdong has implemented such hard measures to further strengthen the foundation of agriculture, accelerate reform and opening up, and the modernization of agriculture.

FINANCE, BANKING

Recent Hong Kong Reporting on RMB Exchange Rates

Pros, Cons of RMB Depreciation

93CE0384A Hong Kong CHING-CHI TAO-PAO
(ECONOMIC REPORTER) in Chinese No. 6,
15 Feb 93 pp 21-22

[Article by Wu Feng-hsia (0702 7655 7209): "Advantages and Disadvantages of a Slide in the Renminbi"]

[Text] **Current Status** A drop in the renminbi's foreign exchange rate is by no means a new problem. The renminbi has been gradually falling in value for a long time. However, since the beginning of 1993, the depreciation of the renminbi has become rather noticeable in that the extent and the speed of its slide has been faster than heretofore.

Let us take a look at the official rate first. According to a State Administration of Exchange Control announcement, in the short space of just a little more than a month in 1993, the renminbi exchange rate slipped, the buying price per HK\$100 dipping from 74.12 to 74.50 yuan.

The slide in the renminbi exchange rate has been even greater in the foreign exchange regulation centers where, beginning in 1993, the renminbi foreign exchange rate declined every day to below the 8 yuan renminbi per \$1 mark. On the first trading day after the New Year, the renminbi closed at 7.81 yuan per \$1, versus the closing price of 7.735 yuan on the last trading day of 1992, \$1 fetching 0.075 yuan renminbi more. The renminbi continued to slide thereafter breaking the 8 yuan renminbi per \$1.00 mark on 8 January, and falling for a time to 8.061 yuan per \$1. It exhibited an inversion with the Hong Kong dollar, HK\$100 fetching 107 yuan.

In coastal areas of south China, particularly in the Zhu Jiang Delta and in the Xiamen area of Fujian, the slide in the renminbi foreign exchange rate was even more serious, different exchange prices occurring in different places. At the end of 1992, the exchange rate approached 1 to 1, and at the beginning of 1993, the black market price in most areas reached 110 renminbi for HK\$100, an even greater slide. Reportedly, the black market exchange rate in Hainan reached 122 yuan per HK\$100.

If the official price is compared with either the prevailing foreign exchange market adjustment price or the black market price, the renminbi has depreciated little-by-little by approximately 30 to 40 percent. The present situation suggests that the recent rapid slide in the renminbi results not from a lack of confidence in the renminbi but from the expectation that the renminbi exchange rate will be readjusted in the course of future reform. Thus, the recent slide in the renminbi foreign exchange price is the market's anticipatory reaction to the trend of the renminbi exchange rate. Specifically: (1) the market expects that currency reform will be required in connection with China's readmittance to GATT; the renminbi will have to gradually shift from a multiple exchange rate to a single exchange rate system. Thus, a great drop in the renminbi exchange rate is expected during the next several months. Many rumors even anticipate that the renminbi exchange rate will fall from the present 5.75 yuan per \$1 to 10, or even 13 or 15 yuan, etc. For this reason, business concerns, residents, and industrial and commercial institutions have joined the ranks of panic buyers.

(2) Import demand will expand further, causing a further boom in demand for foreign exchange. To recover its GATT position with all possible speed, China will speed up foreign trade system reform—particularly reform of the import system—bringing China's customs system and customs duties in line with international standards as quickly as possible, reducing customs duties from the present 22.5 percent to about 13 percent. In 1992, China even took some actions, lowering duties on 225 imports, cancelling license controls on 16 different imports, and cancelling the import regulatory tax. These actions greatly stimulated import demand. In addition, as a result of China's further lowering of duties on more than 3,000 imports beginning in 1993, many business concerns scrambled to buy foreign exchange to hold in reserve, and business concerns having retained spot exchange in their possession are unwilling to surrender foreign exchange fearing that it may not be available when they need it. These are the reasons that the market supply of foreign exchange market cannot meet demand, thereby setting off a rise in the price of foreign exchange.

(3) Shift in investment activities. During the previous stage, stock prices in Shanghai and Shenzhen nosedived, and once the furor in the real estate markets subsided, very great pressures for readjustment also appeared. In inland China, investment market opportunities are very narrow. Given this situation, when the market foretells a decontrol of the foreign exchange market sooner or later,

people enter the market early, regarding foreign exchange as another investment avenue.

Summarization of the foregoing several points shows that the present slide of the renminbi does not stem from a decline in purchasing power within the country. In fact, China's economy developed steadily during 1992, economic growth for the year reaching 12 percent, and the inflation rate reaching 5.3 percent, which although higher than previously, is still acceptable.

Effect The devaluation of the renminbi has had a definite effect on China's foreign economic relations. It has had both good and bad effects on enterprises owned by foreign capitalists or overseas investment enterprises. The good effect is that the goods currently produced by most foreign trader-owned enterprises are sold abroad; therefore, if the raw and processed materials that the enterprises uses are obtained inside China and the products are sold abroad, renminbi being used to pay rent and wages, the enterprise's operating costs will fall in consequence of the depreciation of the renminbi. This is an advantage for such enterprises. However, the products of some foreign-owned business concerns are sold both abroad and inside China, so the proportion of foreign and domestic sales has to be watched. However, raw materials must be obtained inside China and renminbi used to pay rents and wages; therefore, the evening out effect will not be great. Devaluation of the renminbi will not mean the enterprise sustains a loss. The effect will be greatest on firms who sell most of their products inside China, but whose raw materials come from abroad. For example, in a recently issued prospectus, the Hong Kong Chun-wei Investment Corporation said that prior to March 1993 60 percent of the parts used in the automobile that the group produced in China came from France, and most of its products were supplied to the inland China market, the continuous slide of the renminbi foreign exchange rate during 1992 meant that its production costs had risen. As a result during the 8 months up to the end of August 1992, the group had sustained losses of 9.3 million renminbi. As another example, the same situation applied to the Jinlilai Group, but a person in charge in that group said that since the depreciation of the renminbi had been foreseen early on, a previous increase in the sale price of the products it sold in China made up for the losses.

For enterprises inside China, the fall in the renminbi exchange rate means that exporting enterprises' costs are properly reimbursed. This helps bring about a concentration of production resources in the export sector to create foreign exchange.

For the service trades, depreciation of the renminbi means a relative decline in the expenses and costs of tourists who visit inland China. The free convertibility of the renminbi also will open broader prospects for banks to enter the China market.

For new investors, tremendous devaluation of the renminbi will mean maintenance of a wait-and-see attitude.

They hope to be able to obtain more renminbi in exchange for the same amount of foreign currency.

Outlook A look at the present situation suggests that continued decline in the renminbi is very unlikely, mostly because China's economy appears stable at the present time, and because the inflation rate is not at all high. The depreciation of the renminbi's foreign exchange rate during the past several months has gone too far. Furthermore, Minister of Foreign Economic Relations and Trade Li Lanqing [2621 1526 3237] said China has no plans to devalue its currency in the near future. Although the renminbi will ultimately become a freely convertible currency, this will come about gradually as China's economic development permits. On 10 February, State Administration of Exchange Control spokesman Yang Gonglin [2799 6300 2651] also said explicitly that the renminbi exchange rate would not be greatly lowered within the near future. He said that since 1992 China has been making tiny readjustments of the official renminbi exchange rate, and the overall trend has been toward a lowering. This has been done to change the former overvaluation of the renminbi and bring it closer to its true value. These statements permit a better understanding of the trend of the renminbi. They may lower people's expectations of a depreciation of the renminbi's foreign exchange price. When these expectations gradually disappear, the foreign exchange market adjustment price and the black market prices will change or rebound to return to a fairly reasonable exchange rate.

Making Renminbi Convertible

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[ECONOMIC REPORTER] in Chinese No 6,
15 Feb 93 pp 18-20

[Article by Hua Mu (5478 2606): "How Can the Renminbi Be Made Convertible?"]

[Text] During the past more than a decade, the opening of China's economy to the outside world has increased. To enter the mainstream of the world economy, China is currently making unprecedented efforts to improve its own economic climate and economic policies. Convertibility of the renminbi has also come within the ken of government's formulation of future development policies. The convertibility of the renminbi is no longer just a policy goal, but results obtained in the development of China's economy after more than a decade (greater export competitiveness and foreign exchange reserves that have come with growth) make discussion of this matter possible, and China's ambitious plans for participating in global economic rivalry (entry into GATT, the introduction of foreign capital on a large scale, and greater decontrol of markets) raise the necessity for discussing this matter. Therefore, it should be said that free convertibility of the renminbi is not a process that began just today, but rather that the economic system reforms of the past more than a decade have gradually set the stage for this change.

The Gradual Process of Reforming China's Foreign Exchange System

The foreign exchange control regulations that China drew up during the early 1980s signalled an end to more than 30 years of strict foreign exchange control, replacing it with a rational control system rooted in law. Since then, the range and the intensity of foreign exchange controls have gradually diminished.

The foreign exchange retention system permits enterprises having foreign exchange earnings themselves to control a portion of those foreign exchange earnings, thereby stimulating exports. At the same time, this also lays a foundation for the formation of a foreign exchange market.

Abolition of dual foreign exchange rates in 1985 formed the basis for a single currency exchange standard for foreign economic activity that enabled China's foreign exchange system gradually to approach international norms.

The founding of the foreign exchange regulation market (an embryonic form of a foreign exchange market) enabled the renminbi to become a convertible currency. After nearly seven years, the volume of trading in China's foreign exchange regulation market accounts for more than 50 percent of the country's entire foreign exchange income for the year. If the foreign exchange earnings that business concerns retain for their own use are figured in, China's foreign exchange market controls nearly 80 percent of all foreign exchange income. The foreign exchange rate of the foreign exchange regulation market has become the main indicator for reconciling China's foreign exchange supply and demand and the purchasing power of the renminbi. The official exchange rate plays a real role in credit and tourist exchanges, and in capital accounting.

The controlled flexible floating foreign exchange rate system allows the official foreign exchange rate for the renminbi to reflect the market more adeptly. In 1985, China abandoned the system of pegging the renminbi to a basket of currencies. Instead, the authorities adjust the exchange rate between the renminbi and the dollar on the basis of their determination of market trading, simultaneously setting the renminbi exchange rate with other currencies on the basis of daily changes in the international market. While taking into full consideration the immediate changes and the trend of development of the regulatory market exchange rate, they pursue a prudent intermediate term equilibrium strategy that substantially reflects changes in the purchasing power of the renminbi and the trend of supply and demand for it. In April 1991, the Chinese financial authorities began to make small but frequent readjustments of the value of the renminbi to the dollar, thereby showing greater elasticity in China's foreign exchange rate policy.

Reform of China's foreign exchange system during the past more than 40 years have been prudent, gradual, and successful. This has been reflected in many ways.

including the establishment of an externally oriented economic foundation, the increase in foreign exchange reserves, and the consistency between changes in the renminbi market exchange rate and official exchange rate, and between changes in the inflation rate and international competitiveness.

Comparison of Different Development Strategies Internationally

What should the orientation of a further development strategy be on this basis? Naturally, this is an issue that attracts a great amount of attention.

Possibly some international comparisons can help China choose the next step to be taken.

Free currency convertibility is a dynamic process in which international and domestic factors interact. Every nation's choice is limited by its own peculiar internal and external climate; it is not determined by subjective choice.

It is possible to divine certain characteristics of the policy orientation of the countries of eastern Europe. As a result of the sudden changes in their political system, most of the countries of Europe adopted a radical strategy in their economy. Because of the collapse of traditional international relationships, their international balance of payments faced a hopeless situation from the very beginning. Many eastern European countries made free convertibility of their currency their very first choice to avoid an international imbalance of payments resulting from the bad state of their economy. Romania made reform of trade and the foreign exchange system and free currency convertibility the centerpiece of its economic system reforms. The newly independent Estonia also used forests worth 150 million Estonian rubles as backing for the free convertibility of its new currency. Poland, a classic example of radical reform, gambled heavily on "shock therapy." It employed rapid devaluation of its currency to achieve a foreign exchange balance of payments. Hungary announced that if it could maintain stable growth during 1992, it would make its currency freely convertible at the end of 1993. In response to an International Monetary Fund [IMF] prescribed goal, in July 1992 Russia began to make the ruble partially convertible. Since then, the ruble has depreciated to 450 rubles to a dollar. This led the director of the central bank to exclaim in alarm that "free convertibility will make our entire republic worth \$1." Clearly, the methods that eastern Europe and the former USSR have adopted are radical ones intended to make their currencies convertible. The rigid mechanisms and the extremely low foreign exchange reserves fashioned under a longstanding planned economy mean that the convertibility mechanism is built on sand. Its weakness can be imagined.

By comparison, Japan, South Korea, and Thailand followed a gradualist road in the process of making their currencies convertible. Most of them took more than 10 years to create systems that blended in with the international economic mainstream, and increased both their

exports and their foreign exchange reserves. They gradually relaxed foreign trade and foreign exchange controls to make them more in keeping with the domestic economic structure. They built up a foreign exchange rate shaping mechanism in their financial system, thereby fashioning fairly strong international competitiveness, and as their strength increased, they relaxed regulation to make a fairly smooth transition to the goal of free currency convertibility.

China's Goals and the Policy Orientation It Can Adopt

China's economy is performing pretty well today. After more than a decade of continuous high speed growth, the national economy showed a 12 percent growth rate in 1992. Growth of foreign trade has exceeded growth of GNP year after year. The openness of the economy figured in terms of imports and exports now stands at 35 percent, and foreign exchange reserves have increased year after year. In 1991, foreign investment increased by almost the total for the past 10 years. Nevertheless, some economic mechanisms for responding flexibly to market demand are still in process of formation, and there are still numerous weak links in the price system and in the banking and public finance system. These are points of departure and situations to be faced now that China is contemplating steps for free convertibility of the renminbi.

Using the relaxation of controls during the past more than 10 years, following the principle of associated system reforms, and taking six to seven years for gradual attainment of the goal of free convertibility of the renminbi is a more realistic course. China's central bank has made this a long-term goal in reform of the foreign exchange system.

In establishing China's own policy goals, the experiences of some other countries may be referred to. In changing the model, step-by-step comprehensive reform may be employed. In finding a model for development of foreign economic activity, the relaxation of controls on foreign trade and foreign exchange must be solidly based. As for foreign exchange markets, highly effective related markets should meet long-range needs through a gradual change of the existing market structure. In considering further development of foreign economic activities, the form and intensity of foreign trade and foreign exchange controls must be amended on the basis of international practice and the situation being faced.

Successful transition will depend on understanding the total situation and setting reform priorities. China's external economic situation today is similar to that of Japan during the late 1970s: a fairly high economic growth rate, accumulated foreign exchange reserves, and improved foreign competitiveness both on price and quality. The question is how to improve this progress as well as how to employ comprehensive reforms to

quicken system reforms that are in keeping with the character of China's economic and political development.

Currency convertibility is not a simple currency problem. It has a bearing on the entire macroeconomic system and even the political climate.

Two basic prerequisites must be in being for reforms to make a currency convertible: a stable reserve supply and a flexible readjustment system. Therefore, before deciding on a modus operandi, the development of these two prerequisites must be pondered after careful study.

At the present time, China's foreign exchange reserves are sufficient to pay for 10 months of imports (according to IMF statistics); thus, China is in a fairly good position. The fluctuations in China's reserves during the past 10 years reflected policy changes. Whenever reserves reached a fairly high level, the authorities relaxed import controls through various administrative measures. When reserves fell to a certain level, the authorities used administrative methods to curtail imports and improve reserves. These repeated policy changes led to instability in foreign trade operation. In addition, multiple policy readjustments coming in quick succession frequently produced transitional problems that hurt the healthy development of the economy. Therefore, policies must be looked at in terms of a long-term strategy, and a time schedule worked out for their implementation.

If the level of foreign exchange reserves that is sufficient to pay for 10 months of imports can be built up to a two year level without the institution of rigorous controls on the revenues and expenditures of recurring accounts, the reserve requirements will exist for currency convertibility. When some countries moved toward convertibility, their reserves were sufficient to pay for less than four months of imports, but in most of the years during the past decade, China's reserves have been above the four month mark. In view of the special economic structure and ups and downs in the amount of confidence in policies—particularly in view of the present level of reserves still being fairly low in comparison with the recommended reserve level—a higher reserve level will serve as a powerful mainstay for the transition. The significance of "two years" and "without the institution of rigorous controls on the revenues and expenditures of recurring accounts" is that they provide the time and space norms for bringing foreign exchange reserves into line with foreign exchange policy fluctuations over a period of time. Maintenance of a suitable level of reserves over a two year period is a powerful testament to the strength of economic activity, and the accompanying condition of "without the institution of rigorous controls on the revenues and expenditures of recurring accounts" is a demonstration of results achieved in perfecting the system.

A flexible readjustment system depends on the basic microeconomic operating framework and the macroeconomic control system. China's economic system has

changed very greatly since 1978. As China approaches a convertible currency system, the authorities are seeking a fine system environment. In such an environment, relative advantages can find expression, noneconomic behavior can be curtailed, and policy dependability and public support can be maintained. The authorities have already chosen the kind of system that is most in keeping with China's economic structure and financial climate.

Need for Full Consideration of All Factors

The following must be emphasized:

- (1) Since the main elements in the macroeconomic system are interrelated, policy reform measures must cover the whole spectrum.
- (2) Across-the-board reforms cannot be carried out in a single move or be completed overnight. This is particularly so when a situation exists in which various distortions are deeply rooted. The fact is that a too slow driver may cause the same number of traffic accidents as a speeder. Although difficult, it is nevertheless necessary to find the dangers and the speed to be maintained at the time reform is carried out. No matter how fast or how slow the speed during this transitional period, no shortcut exists to change from a nonconvertible to a convertible currency system.
- (3) Reform must accompany the freeing of trade. It must help demolish domestic monopolies and increase efficiency from the trans-national division of labor. Reform of state-owned enterprises will be extremely important for the formation of a competitive market climate.
- (4) The authorities should weigh the coordination of internal and external balance, maintaining consistency with changes in the world economy that have an effect on progress in transition.
- (5) The authorities should establish a transition timetable, coordinating with the overall climate. Even though various imponderables may exist about overall progress, a plan that calls for phased implementation will ensure an orderly transition. In addition, the existing policy implementation operating system should be completely revamped.

Steps That May Be Taken

China may decide on the following steps right now for a gradual transition:

1. A unified national foreign exchange regulation market, establishing a foreign exchange price formation mechanism for financial centers, and standardizing foreign exchange dealings methods and monitoring and control procedures for the gradual fashioning of a foreign exchange trading system in which the financial system is paramount. Further relaxation of market entry controls, forming a nationwide market exchange rate.

2. To standardize foreign exchange market operations, the foreign exchange retention system should be changed within two years from the quota system to the spot foreign exchange system.

3. Establishment of an interbank foreign exchange trading system, using the development of interbank foreign exchange markets to set the stage for rational foreign exchange rate-producing mechanism.

4. Bringing the official foreign exchange rate in line with the market foreign exchange rate. When foreign exchange markets possess sufficient ability to respond and sufficient trading capacity, the official foreign exchange rate should be abolished, the market foreign exchange rate being the sole exchange rate. In the process of attaining this goal, a system may be instituted for gradually readjusting the official rate of exchange that narrows the gap between the market exchange rate and the official exchange rate over a period of time. Controls on the buying and selling of foreign exchange should be relaxed. When system reforms enable variables to regulate the entire economy fairly effectively, an official exchange rate should no longer be set.

5. When prices of the elements of production are largely decontrolled, the renminbi exchange rate should be decided by market supply and demand. In this process, foreign trade and foreign exchange controls should be gradually relaxed.

6. After relaxation of controls on the revenues and expenditures of recurring accounts takes effect, a further relaxation of controls on the receipts and expenditures of capital accounts may be considered to gradually make use of the restraining role of interest rates on foreign exchange receipts and expenditures, currency policy thereby effectively influencing the economy's internal and external balance.

The foregoing process will take approximately seven years. Judging from the trend of economic development on the China mainland during the course of reform and opening to the outside world during the past several years, it may be possible to realize the goal of renminbi convertibility by around 1998.

Backdrop to Renminbi Depreciation

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[Article by Xiao Liu (2556 2692): "Background to the Renminbi Hemorrhage -16 Renminbi to HK\$1 and Nearly 10 to \$1, and Still Falling Because of Widely Rumored 'Merger'"]

[Text] The renminbi has repeatedly depreciated since the last half of 1992, and the most recent slide has been more worrisome. People wonder whether there will be a bottom if this continues. Some say that should the authorities decide to intervene, investing several billion

dollars to halt further slide of the renminbi might be like pouring money down a rat hole, nothing gained in return.

Sustained Devaluation; Worsening Currency

Let us first examine the renminbi's devaluation.

In 1992, the renminbi lost nearly one-fourth of its value, and within slightly more than one month in 1993, it fell another almost 15 percentage points.

In January 1993, the renminbi Hong Kong dollar exchange rate on the Shenzhen black market was 1 to 1, and hotels figured 85 renminbi per HK\$100. (The official rate was 74 renminbi per HK\$100). Actually, the Hong Kong dollar circulates widely in Shenzhen where the renminbi has become "bad money." Outside Guangdong, it is the dollar that is in greatest demand. Before the lunar New Year, the regulated price of renminbi in the Shanghai foreign exchange regulation center was approximately 8 yuan to the dollar. (The official price is 5.70 yuan renminbi to the dollar).

After the lunar New Year, the Shenzhen black market price changed to more than 110 yuan per HK\$100. Some Hong Kong exchange shops posted a price of 105 to 106 yuan per HK\$100, and other exchange shops converted renminbi at a rate of 116 yuan per HK\$100. In some provinces and cities outside Guangdong panic buying of dollars for renminbi has continued for a long time. This is the case in readjustment markets, and much more so on the free market (black market). The renminbi trades in free markets at between 0.50 and 1 yuan more per dollar than in the regulation centers. Since the beginning of February, the value of the renminbi relative to the dollar on the free market has fallen about 0.10 yuan every two days. A 10 renminbi per \$1 rate is close at hand. Rumors of a continued fall persist, and people also say that the authorities have already decided that after China enters GATT, the exchange rate will be 15 yuan to the dollar.

Rumored "Merging of Tracks" Remains Main Reason

Various explanations are given for devaluation of the renminbi.

First, since the end of 1992, it has been widely rumored on the mainland that the renminbi is to "merge tracks." This so-called merging of tracks means that the former "double track" or "multiple track" foreign exchange system will be merged into one. In place of the existing state list price (the official price), regulation center exchange rate (the regulated price), and free market price (black market) price, the authorities have said they intend to reform the foreign exchange system, ultimately making the renminbi freely convertible. In February 1992, the State Foreign Exchange Control Administration announced the free convertibility of the renminbi to be a long-term goal. This is generally believed to be "preparatory action" for entry into GATT. A "merger" will require free convertibility, the merger moving in the

direction of the free market. The renminbi cannot continue to be overvalued as it has been at the official rate. One widely circulating rumor is that the renminbi exchange rate will continue to fall, and that officialdom has secretly decided that the exchange rate is to be \$1 per 15 yuan.

Second, during 1992, a large investment was made in capital construction on the mainland, particularly during the last half of the year. Demand for raw and processed materials shot up in China, prices soared, and demand for imported materials such as processed steel and timber rose. Foreign exchange demand increased. Consequently, regulatory market trading of renminbi for dollars was vigorous, the renminbi price of foreign currency rising continuously, and the renminbi exchange rate steadily falling in consequence.

Third, the public generally anticipates inflation. Renminbi in people's hands that is not needed to make purchases surges into the free market for panic buying of foreign currency. People are frightened, in addition to which they expect that the renminbi will fall even further, which drives speculation in foreign currencies even higher.

Fourth, even though the renminbi exchange rate has steadily declined in the adjustment markets, market business is slow. Foreign-owned companies and big customers who have foreign exchange have a wait-and-see attitude, and companies or units needing foreign exchange rush to buy foreign exchange out of fear. The continuation of this situation in which the demand for foreign exchange is greater than demand has accelerated the speed of the renminbi's devaluation, and has played a role in driving up foreign currency prices.

Is There Any Bottom To Further Slide?

What will be the result of the renminbi's devaluation, and where will the slide end is also a topic about which views differ.

Some are worried that there may be "no bottom" to the slide of the renminbi. People who worry like this point out that inflation in China is one reason exacerbating the renminbi's devaluation. Private savings in bank accounts throughout China today total 1.3 trillion yuan renminbi. The uses to which this more than 1 trillion yuan may be put are difficult to control. If only a portion of it were to be put into the foreign exchange market, it would create enormous pressures, and this is another reason why the fall of the renminbi has "no bottom." Furthermore, if people give up buying currency with renminbi and turn to purchases of goods to preserve value, that can intensify inflation.

Others feel that statements about "no bottom" show undue worry, because once the renminbi falls to a certain level, its price will begin to be set on the basis of normal supply and demand. They estimate that this level will be about 12 yuan to the dollar. Optimists also believe that the downward adjustment of the renminbi rate of

exchange is about at an end, and that only slow minor downward adjustments will continue as was the case with the official rate, which found its level gradually rather than in one fell swoop.

Still others feel that the fall in the value of the renminbi also has a good side in that it helps stimulate exports. Since most business concerns have inventories on hand, these people guess that the concerns will not dare raise prices of export goods. In addition, devaluation also helps hold down imports. Some people link the devaluation to the prospect of China's entry into GATT because after entering GATT, limitations on imports will have to be relaxed and tariffs greatly reduced. Then China's economy will face pressures from abroad. However, devaluation of the renminbi will serve to reduce the impact and the threat to China of imports and will replace import tariffs in "guarding the gates" (meaning restricting imports) and providing protection (for domestic industry).

No Intervention; Let the Market Decide

What is the reaction of officialdom and what actions is it taking about the continuing devaluation of the renminbi?

Recently officialdom made a formal statement. An official in the State Administration of Exchange Control announced that the renminbi would not decline greatly in value in the near term, and he denied some comments and guesses saying that there was absolutely no basis at all for the statement that the renminbi exchange rate would be set at 15 yuan to the dollar after China's entry into GATT. However, at the same time this official said that the official rate of the renminbi would continue to be adjusted slightly, and that the general trend would be downward, the goal being to change the situation of steady overvaluation of the renminbi to bring it closer to its true value.

It is generally assumed that development of the market economy and entry into GATT make inevitable a trend toward merger into a single exchange rate and free convertibility of the renminbi. Furthermore, with the strengthening of market forces, no longer can administrative methods of control be relied on. If economic methods of intervention are used, the state will have to invest foreign exchange to halt the devaluation of the renminbi's foreign exchange rate. However, even were it to invest billions of dollars, it would still be unable to satisfy market demand for American dollars. It would only be like pouring money down a rat hole, nothing obtained in return. Therefore, government officials—particularly State Council officials responsible for financial and foreign exchange matters—understand the powerful role of the market, and they understand that government can do little in the face of the market. It can only leave foreign exchange rates to the market. Reportedly, government officials have considered whether government should intervene, but finally the view prevailed that market regulation and market decisions should set exchange rates.

Banks Urged To Control Credit, Money Supply

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15 Mar 93 p 3

[Article by Zhao Haikuan (6392 3189 1401): "Banks Should Control Both Credit and the Issuance of Currency"]

[Text] In recent years, the difference between increase in the amount of credit and increase in the money supply has increased steadily. For example, state-owned bank credit increased 151.9 billion yuan in 1988, up 17 percent, but the money supply increased 68 billion yuan, up 46.7 percent. In 1992, state bank credit increased 354 billion yuan, up 19.6 percent, but the money supply increased 115.8 billion yuan, up 36.4 percent. Therefore, whether banks should control both the amount of credit and the amount of currency issued to effect macroeconomic regulation and control has become a matter about which everyone is concerned and that must be studied.

1. Bank Credit and the Money Supply Before Reform

Before reform, the nation's banks controlled at once both the amount of credit and the amount of money they issued. At that time, commercial credit was illegal and capital markets had not yet been decontrolled. Credit was centralized in banks, and the banks alone supplied all the credit available to society. The amount of credit that the banks issued was identical to the amount of money they issued. The amount of money that banks issued depended on their need for funds, and more than 95 percent of banks' needs for funds were for various forms of credit; thus, one might say that the amount of money that banks put into circulation depended on the amount of credit that the banks issued. Bank credit was the fountainhead for currency circulation.

Of course, this is not to say that the effect of the economic activities of the nonbanking sector on currency circulation, the value of the currency, and prices is not great. On the contrary, not only do their economic activities influence the speed with which money circulates and the total demand structure, but by putting more investment into fixed assets and less into circulating funds, using available funds for other purposes first, thereby causing a shortage of funds remaining for state procurement of grain and cotton and for projects that the state has to develop, they force banks to issue more credit, thereby increasing total social demand for credit. However, if one looks at matters only superficially without going into the basic reasons for them, one has to acknowledge that the money supply stems basically from bank credit. Therefore, if a balance is to be achieved between total supply and total demand, bank credit must be controlled.

If this is the case, is it just bank credit that must be controlled, control of the money supply being unnecessary? Not at all. This is because even though the size of the money supply results from the amount of bank credit, it also differs from bank credit. Halting bank credit for one year does not equate with halting the money supply for the following reasons:

(1) The amount of money in circulation is only a small portion of bank credit. Ordinarily one portion of bank credit becomes cash money in circulation, another portion goes into demand deposits for the use of units in settling transfer accounts, and another portion becomes funds in savings accounts and public finance accounts where it is not used for purchases directly. Only 16 percent of all bank credit was turned into cash during the more than 40 years since founding of the PRC, and 16.4 percent of that credit became cash only during the more than a decade of reform and opening to the outside world.

(2) The process of translating credit into the issuance of currency takes time. The reason that some bank credit must be converted into cash is that enterprises frequently have to borrow from banks to pay for goods obtained from suppliers. After the suppliers obtain such payments, they must use a portion of them for wages, to pay various administrative and management expenses, and to pay taxes and profits to the government. After the treasury receives taxes and profits, it disburses them to government agencies, government-sponsored organizations, and the armed forces so that they can issue wages, and pay administrative and management expenses and other costs. Credit has to complete this tortuous process to become part of the money supply, and this takes a certain amount of time too. Therefore, in the period of a single year, the amount of credit and the amount of money in circulation do not necessarily match. A portion of the credit issued during any given year may not become a part of the money supply in that year, and credit issued during the previous year may show up in the money supply in the current year.

In short, simply controlling the increase in credit for any given year cannot completely control the amount of money entering circulation.

However, regulation and control of the money supply and circulation during any given year has particularly important significance for the value of money and the stability of prices. Money that circulates in the marketplace becomes the most lively and least restricted purchasing power. This is particularly true of cash in the hands of individuals, which is not hampered by anything other than the law, and which tends to be used opposite to the requirements of money flow, meaning that when goods are in plentiful supply, stocks on hand are fairly large and greater sales are needed, money flow stagnates more and purchases decline. When more money is circulating in markets and goods are in short supply, calling for a control of purchasing power, money circulates faster and purchases increase. Furthermore, it is items used in daily life that are purchased most, and the political effect of the supply of goods used in daily life is very great. If regulation of the amount of money issued and in circulation is relaxed, economic development may be damaged.

2. Developed Western Nations Also Regulate and Control the Money Supply and Bank Credit

In the major western nations, financial markets are well developed; a fairly large number of financing methods are used; and large amounts of gold, foreign exchange, and negotiable securities are bought and sold. Money circulates from many sources. The effect of bank credit on the money supply is somewhat less than in China, in addition to which the number of financial institutions issuing credit in western nations is very great; thus direct control of the amount of bank credit in society is very difficult. Consequently, the central banks in western nations frequently make currency demand and supply the main targets of macroeconomic regulation and supply. This means that they employ credit interest rate readjustments, deposit reserve rates, open market dealings, and window guidance (advice) to regulate the basic money supply, thereby regulating the amount of money supply and demand throughout society to maintain the stability of both the currency and prices.

Furthermore, credit limits differ between western nations and China: (1) In western nations, credit limits are generally assigned to only some banks, the number of which is fairly small. In China, credit limits are assigned to all large banks and their branches. The number of banking institutions assigned credit limits is fairly large. Credit restrictions apply to a far higher percentage of loans in China than in western nations. (2) In western nations, such limitations are assigned only during times when tightening policies are being put into effect to control credit strictly. In China, by contrast, such limitations are assigned under all circumstances. (3) In China, the limitations are of a command nature. In western nations, some limitations are very strictly enforced while enforcement is lax in other cases. Limitations are only of a guidance nature.

3. Changes in the Constituent Elements of Credit and Money Supply in China

As a result of more than a decade of sustained reform, the make-up and position of bank credit and the money supply in China has undergone many changes. These changes may be characterized mostly as follows:

(1) A decline in bank credit as a percentage of total finance capital.

First, because of the increase in the use of new things such as "assets in state financial institutions" as well as the increase in the amount of money in several things that were also used for funding in the past, such as foreign exchange holdings and government loans, bank credit has declined as a percentage of bank funds used.

Second, the amount of credit from other financial institutions has grown rapidly. The amount of credit from urban credit cooperatives, trust investment corporations, finance companies, and small and medium size banks has increased. Credit funds from urban credit cooperatives alone amounted to 31.6 billion yuan in

1991, and the public finance sector also issues a large amount of credit each year as well.

Finally, with decontrol of financial markets, the amount of direct financing has increased. Commercial credit and nongovernment loans have increased rapidly, large amounts of bonds and share certificates of all kinds being issued. Between 1985 and the end of 1991, a total of 377 billion yuan worth of bonds, share certificates, and large numbers of convertible certificates of deposit were issued. Trades and transfers of these negotiable securities is also on the increase reaching 46.1 billion yuan in 1991. Therefore, not only is credit from state-owned banks and rural credit cooperatives a part of the amount of credit available to society, but the amount of credit available to society is also a part of total social finance capital today. This is to say that the effect on currency supply of bank credit in China today is much less than before reform and opening to the outside world. Before reform, an overwhelming majority of the money put into circulation came from bank credit, but today only a part of the money supply comes from bank credit. No small amount of the remainder comes from other financing activities.

(2) Wider use of currency. Before economic system reform, because of the country's product economy in which the means of production were not regarded as commodities and most means of consumption were paid for in cash, money was equated with cash for a long time in China. Money meant cash. Since the beginning of economic system reform, thanks to the development of a planned commodity economy, in addition to cash (termed M0), which plays a real role as money, money also means demand deposits (which together with M0 are collectively termed M1), which may be used in the form of transfers for the direct purchase of goods. Other forms of money include deposits of funds such as savings deposits, units' time deposits, and public finance deposits. Although these cannot play a direct purchase and payment role, and are not included in the category of real money, they can be readily converted into real money, and they can also play the role of money in a broad sense (together with M1, they are collectively termed M2). Looked at in terms of macroeconomic regulation and control requirements, the cash and the transferred money that M1 represents are an expression at a certain period of time of total social demand; thus, they should be the main objects of regulation and control.

4. Need for a Redefinition of the Meaning of Credit and Money Supply

With the intensification of economic system reform and the building and perfection of a socialist market economy system, direct financing accounts for an increasing percentage of all financing. The number of financial institutions and financing techniques is also increasing, making regulation and adjustment of social financing as a whole more difficult. In the future, there will be less use of the term controlling credit and money;

the money supply will become the main target for regulation and control. At the present time, however, this is not the case; we still have to control both credit and the money supply.

This is because China is still in the process of intensifying reform and building a socialist market economy system. The market economy has come a very long way in its development, but it is not complete. The enterprise operating mechanism has begun to change, but it has not yet changed completely. Macroeconomic regulation and control cannot be done effectively through economic methods. Consequently, regulation and control of the amount of money in circulation requires not only direct control of the money supply, but also control of the sources of the money supply. This means compulsory control over the supply of credit funds, shaping a composite mechanism for controlling the money supply.

However, as was said earlier, no longer does the term controlling credit and money express the real situation. It seems a change in the form of expression to controlling the supply of credit and the supply of money is needed. However, inasmuch as everyone has an accustomed way of speaking that cannot be easily changed, the meaning must be redefined. Credit must be used to mean credit funds, controlling credit meaning controlling credit funds. This entails not only emphasis on controlling the amount of state-owned bank credit, but also regulating and controlling the buying and selling of negotiable securities and the foreign exchange activities of state-owned banks, and regulating and controlling the credit funds that other financial institutions supply society and the amount of their direct financing.

Direct financing of society directly relates to all financial institutions. Theoretically speaking, controlling the supply of credit funds from financial institutions means controlling the increase or decrease of direct financing. This is because it is the central bank that can increase the basic money supply, and it is the financial institutions, which handle both credit funds and savings deposits, that can parlay subsistence funds into credit funds. Without the participation of financial institutions in direct financing, linking together different forms of indirect financing, only a redistribution of credit funds already existing in society is possible; the total amount of credit funds in society cannot be increased. However, financial institutions' direct financing—such as the use of bank credit or withholding bank savings to purchase stocks and bonds, deposit in banks of money made from the sale of stocks and bonds, or having it become a part of bank credit again—is already included in the control of banking institution's credit funds. However, since China must increase macroeconomic regulation and control and since regulation and control over financial organizations—particularly regulation and control of financial institutions other than state-owned banks—is not sufficiently strong, management, regulation and control of indirect financing is necessary, such as, for example, the total amount of stocks and funds issued each year.

The term "money supply" need not be changed. However, it should be used to mean not only cash, but also inputs of transfer account money. The reason is simple. Since the advent of reform and opening to the outside world, the purview of markets has greatly expanded. Not only have finance markets, labor markets, technology markets, and information markets been decontrolled, but the meaning of the former commodity markets is also broader; the term commodities now means not only daily necessities but also the means of production. The overall demand for transfer money is far greater than for cash. Therefore, unless transfer money is included, regulation and control of total demand will not very likely meet anticipated goals.

Naturally, simultaneous with full regulation and control of cash and transfer money, special emphasis must be placed on the regulation and control of cash. This is because the restrictions on the use of cash are least. It may be used to buy things freely, and it is the form used for the purchase of daily necessities.

When some people see that the central banks in western countries do not explicitly target for macroeconomic regulation and control the total supply of credit funds in society, they say that China should do likewise. We cannot agree with this. China today has no effective methods for regulating and controlling the money supply. If we do not make the supply of social credit, the bulk of which come from state-owned banks, one of the targets for regulation and control, there will be no way of truly regulating and controlling the supply of credit in society; thus, the central bank's macroeconomic regulation and control cannot be truly effective either.

Some people also say that the cash control system in China today is largely ineffective; customers may freely select either money transfer or payment in cash; thus, banks have no effective means of controlling the money supply. Making the money supply an indirect target for control, regarding it as a matter to be controlled as well as credit, has no real significance. We cannot agree with this either. First of all, it is not true that there is nothing that banks can do about the money supply. They can raise interest rates, improve service quality, or attract units fixed deposits and savings deposits to promote the removal of currency from circulation and reduce the issuance of currency. Second, the money supply is the most basic target for regulation and control. Regulation and control of the role of the supply of credit funds also lies in regulating and controlling the money supply. Therefore, singling out the money supply for regulation, control, and examination when the money supply is increasing too rapidly and there is too much money in the market, increasing the extent of regulation and control in every way (including the supply of credit funds) while conversely moderately increasing credit and relaxing the supply of credit, holds important significance in improving macroeconomic regulation and control, and accelerating economic development.

INDUSTRY

Article on Efficiency of Textile Industry

HK0305134093 Beijing JINGJI GUANLI in Chinese
No 12, 5 Dec 92 pp 12-14

[Article by Wang Xiyun (3769 0823 6663): "An Analysis of and Recommendations for the Economic Efficiency of the Textile Industry"]

[Text] This year, the economic efficiency of textile enterprises has been sliding further on the basis of the decline which began two years ago. The duration and cumulative extent of the decline have seen no parallel in history. Despite the fact that state administrative departments and the enterprises themselves have adopted measures to counter this drop in efficiency, the momentum of decline continues unabated.

According to the overall picture of major economic efficiency indicators for 1,313 state-owned textile enterprises in 39 large and medium-sized cities between January and June, profits and taxes realized were 1.54 billion yuan, 25.85 percent less than in the same period of last year; profits realized were 360 million yuan, 60.92 percent less than in the same period of last year. Although the percentage of enterprises running at a loss dropped by 4.74 percentage points to 41.5 percent compared to last year, actual losses increased by 12.37 percent. Among these 39 large and medium-sized cities, only 14, or 36 percent, reported profits. The same situation is true of provinces with a strong textile industry foundation. Between January and June, the textile industry in Jiangsu Province realized 475 million yuan in profits and taxes, a drop of 17.2 percent compared with the same period last year, while profits were registered at 190 million yuan, a drop of 32 percent. During the same period, enterprises sustained 106.58 million yuan in losses, with 38 percent of enterprises sustaining losses. Shaanxi Province has 23 textile enterprises directly under its jurisdiction. Between January and June, profits and taxes realized were 29.6 percent less than in the same period last year, while profits realized were 126 percent less. Losses sustained by enterprises increased by 33.6 percent, with 56.5 percent of enterprises sustaining losses. As seen from the situation in the whole nation and in various provinces in the first six months, the second quarter showed an upturn in overall efficiency and an end to sustained losses in the first quarter, but a trend of continuous decline was still seen compared with past years. Thus, the economic efficiency of textile enterprises is in a critical period and has become an important factor that has a direct bearing on state revenue.

Reasons

The sustained decline in the economic efficiency of textile enterprises is due to a variety of reasons. Put briefly, it is mainly due to the following reasons:

1. There is a gap between production and demand. With heavy stocks of finished goods, output value realized by enterprises cannot be turned into profits and taxes. Due to the lack of control over the development of the textile industry in the past few years, China's cotton-spinning capacity exceeds market needs by nearly 10 million spindles, and cotton yarn production has been 1.8 million-3.5 million pieces above the planned quota in recent years. Meanwhile, there is also a relative surplus of weaving capacity, with more than 3 billion meters of cloth produced in excess of market needs. Although efforts have been made by the state in the past two years to limit production and reduce stocks, these measures have increased the fixed unit cost of products. Under the constraint of quotas for limiting production and reducing stocks, many enterprises are compelled to go full steam ahead in production on the one hand and sell goods at reduced prices on the other. This produces a malign cycle. Meanwhile, since these measures cannot restrict production outside the system, there is no way of keeping production capacity under control. According to an analysis by relevant departments of the over-production of cotton yarn, nearly 50 percent of over-production is by enterprises outside the system. Moreover, due to the relaxation of tension in the supply of cotton, there are signs of sustained growth in textile production. According to statistics compiled by relevant departments, cotton yarn production in the whole country in the first six months of this year totaled 13.2197 million pieces, 57.11 percent of the annual plan, and over-producing by 1.8053 million pieces.

2. Growing factors of rising costs and diminishing profits have forced up the unit cost of products and reduced the proportion of profits and tax in the value of products, thereby restricting the growth of efficiency. First, since 1989, the price of cotton has been readjusted three times, the extent of the price rise being 91 percent. Surcharges by different localities under various pretexts mean that their price is more than 11 percent above the price fixed by the state. According to an analysis by relevant departments, raw materials account for 68 percent of the decline in the economic efficiency of the textile industry. Calculated at an average surcharge of 67 yuan per 100 jin of cotton, production costs of the textile industry were forced up by 4.7 billion yuan in 1990, equivalent to 130 percent of the total profits of the whole textile industry. Second, because enterprises are suffering from a serious shortage of circulating capital, while an increasing proportion of this is tied up in the three funds, interest on loans has become a major factor in rising costs and diminishing profits. The fact that the state has not made any readjustments in the amount of circulating capital allocated to textile enterprises for many years has restricted the development of these enterprises. Based on estimates by the parties concerned, owned circulating capital accounts for about 17 percent of total circulating capital, the remainder coming entirely from loans. Meanwhile, the proportion tied up in the three funds is seen to be on the increase. By the end of June, funds tied up in finished goods in state-owned textile enterprises

alone increased by 15.53 percent, or 3.621 billion yuan, compared with the beginning of the year. As reflected by some enterprises, funds accounted for over 40 percent of the decline in economic efficiency. This, coupled with spiralling prices and the excessive growth of administrative expenses, workshop outlay, wages and welfare expenses, greatly increased the running costs of enterprises.

3. With textile enterprises undercutting one another in competition and foreign trade departments slashing purchase prices, the prices of textile goods are forced down. This is a cause of the loss of profits and taxes in the course of circulation. The loss of control over total supply and demand has also resulted in a saturated market and difficulties in the marketing of textile goods. Thus, the actual selling price of textile goods has all along been 26 percent lower than the 73 percent price increase proposed by the state. Against this background, there has been a continuing trend of substantial price cuts in the past three years, with cuts ranging between 30 and 40 percent. Since 1 July this year in particular, when industry-wide stocktaking began and the state offered the preferential policies of charge accounts and suspension of interest during the period of applying for reimbursement, enterprises have been undercutting one another in competition. The truth is, enterprises had already been engaged in competitive sales since the first half of the year in their efforts to snatch their share of the limited market under the policy of restricting production and reducing stocks. Domestic sales were gloomy, and price slashing by foreign trade departments was also serious. The purchase price of pure cotton yarn was slashed by five to 10 percent, while the price of polyester cotton yarn was slashed by 8 to 15 percent. According to state statistics, the purchase price of major varieties in the country's 18 principal textile goods exporting areas was below cost last year. Due to the delivery of textile goods for export at below-cost price, Hubei's textile enterprises suffered a loss in earnings amounting to 100 million yuan a year. Thus, despite the steady growth in textile exports in recent years, enterprises were not happy. To the contrary, some provinces and cities were compelled to exercise control over textile exports to cut losses.

4. Without sufficient technical transformation investment and owned circulating capital, enterprises lack the necessary material base for invigorating their operation and increasing their economic efficiency. Advanced technical equipment and ample circulating capital are the material means that will enable enterprises to cut production costs, promptly readjust the product mix in the light of market demand, and increase the competitiveness of their products. However, most textile enterprises are now handicapped by antiquated equipment and backward technology. High energy and material consumption levels, high reject rates and lack of varieties and specifications are major reasons for cost increases and poor sales. It is understood that more than half of the varieties are produced by textile enterprises at a loss. This means that the more they produce the heavier their

losses. Enterprises need to have their own resources for risk investment to embark on the development of new products, and must also have their own resources to make good temporary operational losses. For a variety of reasons, however, textile enterprises find themselves in an impasse because of the shortage of funds.

5. Textile enterprises generally lack the ability to adapt to the needs of commodity economy and have not developed an operating mechanism that can meet the needs of market economy. The fact that enterprises cannot keep pace with market needs in their production and operation directly affects their participation in market competition and their endeavor to increase economic efficiency. At present, enterprises are faced with a shortage of institutions for market research and development of new products. They have not truly developed a mechanism of diversified varieties, small serial production, high quality and quick delivery that is suited to market needs. As a result, products are selling poorly, while customers are turned away because these enterprises fail to measure up to the requirements. Some enterprises which are already implementing their contracts are forced to accept returns, pay compensation and even lose their customers for one reason or another. Meanwhile, their backward distribution and sales promotion techniques cannot meet the needs of market economy, so much so that marketing has become a major problem in their management and operation. Due to imperfections in the operational mechanism, the practice of "everybody eating from the same big pot," and the failure of basic management to keep up with needs, enterprises have to suffer the consequences of their lax management of production and operation in the form of revenue losses.

Recommendations

Textile enterprises need help to get back into the black and increase economic efficiency. They can only prosper and turn from money-losing undertakings into a ready source of money with the concerted efforts of different quarters.

1. Resolutely control total production and restrict blind production. It is necessary to make a determined effort to tackle the roots of the problem, and take resolute measures to control the total production of enterprises and prevent blind production. First, efforts must be made to reduce the production capacity by phasing out antiquated textile equipment. The Ministry of Textile Industry plans to reduce cotton yarn production by 3.6 million spindles over the next three years. Beijing plans to reduce total production by 20 percent between now and the end of the Eighth Five-Year Plan through closures or cessation of production. Second, efforts must be made to reduce the number of textile enterprises. Through merging with other enterprises, switching to other lines of production, transfers and other means, steps should be taken to readjust enterprises with heavy losses but which have no hope of getting back into the black. Textile enterprises may also develop diverse

undertakings so that losses sustained in textile production can be made up by other undertakings. Third, efforts must be made to reduce products that are unmarketable, have a minimal profit margin or are even selling at a loss. Measures must be taken to restrict the production of products with a minimal profit margin or which are selling at a loss; promote the production of products that are in great demand, involve great difficulties but have a large profit margin; and reduce the stock of finished goods by increasing the profit rate of products and maintaining a basic balance between production and sales.

2. Promptly readjust the product mix and strengthen operation and marketing. Textile goods are characterized by their short replacement and life cycles. This means that we must waste no time readjusting the product mix and developing new varieties. Only in this way can we open up broad vistas for operation and marketing. For this reason, textile enterprises must attach importance to the readjustment of product mix. First, we must work out a scientific and rational ratio between cloth for industrial use, cloth for decoration and cloth for garments, and promote their coordinated development. Second, efforts must be made to develop brand-name, quality and new products, produce competitive products, use brand-name, quality, new and special products to secure market shares, increase the added value of products through meticulous and intensive processing, and urge enterprises to eliminate losses and increase profits. Steps must also be taken to continuously widen sales channels, consolidate the network of new and old clients, formulate flexible pricing policies and promote sales by a variety of means. It is also necessary to strengthen the contingent of sales personnel, change the method of assigning sales personnel, and adopt a multi-modal system of sales responsibility.

3. Strengthen technical transformation and increase the competitiveness of products. China's textile enterprises are economically feeble and have a weak competitive edge mainly because they do not have sophisticated technical equipment to fall back on. During the Eighth Five-Year Plan period, the state should increase the proportion of investment in technical transformation, giving priority to cotton textiles, woolen textiles, knitwear, and printing and dyeing. Steps must be taken to put new spinning, weaving, chemical fiber, printing and dyeing techniques into further application and development in order to bring about a substantial increase in carefully processed products with a high added value, and in so doing achieve a marked improvement in the grade and quality of products. Technical transformation must be carried out so as to upgrade one-third of technical equipment to international standards of the 1970s and 1980s and to bring the principal economic and technical indicators of one-third of our large textile enterprises to domestic advanced standards. In this way, they can produce competitive products for the domestic and international markets. The Ministry of Textile Industry plans to update 4 million spindles in the next

three years. These, together with the existing 4 million advanced spindles, will make up the "national team" of 8 million spindles of advanced standards. The Ministry also plans to cooperate with big international companies that have economic strength and advanced technologies. Through such means as technology trade, cooperative production, joint ventures and joint capital in the construction of plants, efforts will be made to speed up the development of automatic doffers, shuttleless looms, combers and other new textile machinery, and to develop an annual production capacity of 800 automatic doffers and 5,000 shuttleless looms in three years.

4. Strive to reduce costs and increase economic efficiency. Faced with soaring prices of raw materials, huge interest payments and low selling prices, the state and enterprises must make a joint effort to put an end to this unfavorable situation. 1) The state must introduce a unified price for spun cotton and abolish surcharges levied under various names in the course of circulation. 2) Effective measures must be taken to restrict the excessive proportion tied up in the three funds. Through administrative and legal means, steps should also be taken to thoroughly break debt chains, prevent attempts at borrowing to cover loans, and reduce the interest expenditure of enterprises. 3) Relevant departments of the state should reappraise and fix the circulating capital of enterprises and gradually replenish the circulating capital of textile enterprises to put an end to the shortage of circulating capital. 4) Textile enterprises must eliminate waste, and increase management efficiency by doing a good job of increasing production, practicing economy, raising revenues and reducing expenditure. Enterprises should eliminate practices of tax evasion, tax leakage, illegal reduction of tax rates and interception of profits to be turned in through strict management.

5. Cater to market needs, strengthen functions and transform operating mechanism. Enterprises are no doubt faced with a historic test during the transition from planned economy to market economy. Enterprises that can stand the test will prosper, while those that cannot will be eliminated by history. In the face of this test, some enterprises have taken the initiative to enter the market and faced the test, others are adopting a wait-and-see attitude, still others are marking time. In today's market economy, the products of enterprises can only become commodities and realize their value through buying and selling. Thus, the market is the interface between production and sales, and all production and operational activities of enterprises must meet market needs. Textile enterprises must quicken their transformation of operational mechanism, lose no time establishing a new operational mechanism that meets the needs of market competition, and organize production, operation and sales in accordance with international practices and regulations. At the same time, they must strengthen basic management, take domestic and international markets as their targets, and readjust their organizational structure to meet changing market needs.

FOREIGN TRADE, INVESTMENT

Li Yining on Improving Use of Foreign Funds

93CE0414A Beijing GUOJI SHANGBAO in Chinese
21 Mar 93 p 1

[Article by Wang Yan (3769 8827): "China Still Needs To Increase Its Introduction of Foreign Funds"]

[Text] During the National People's Congress, I paid a visit to Professor Li Yining [0632 0110 1337], a well-known economist, and asked him to express his views on the current situation of China's using foreign funds.

China made unprecedented achievements in 1992 in the work of introducing foreign investment. The number of joint ventures that have been approved and established in one year is equivalent to the total sum over the past 13 years. As for whether such a development speed will lead to the risk of "overheating," Professor Li Yining believes that this needs to be considered from three angles. First, if the introduction of foreign funds is to readjust China's industrial structure, an increase in introducing foreign funds should not be related to "overheating," because the readjustment of industrial structure is just what the domestic economy needs. Second, if the introduction of foreign funds is to earn foreign exchange from exports, it can expand our export capacity, then introduction of foreign funds can increase the volume of our export trade. This kind of introduction has nothing to do with "overheating." Third, it depends upon the modes of foreign fund introduction. Debtors need to pay back and bear huge stress. Owing to the fact that joint ventures make up the majority, the foreign side only withdraws partial profits rather than pay back the investment. Judging from the three areas of whether introduction of foreign funds is conducive to readjust the industrial structure, whether it increases the capacity of exports generating foreign exchange, and what modes of investment it adopts, we can see that at present introduction of foreign funds has not led to "overheating" in China.

Professor Li Yining, however, also put forward some related questions to which attention should be paid. First, various localities should make sure they will not introduce foreign funds in great numbers only to build gardens, villas, and golf courses. Consideration should be given to the issue of how to supplement and readjust industrial structures. Second, as for some important trades and professions, the best policy is to have unified introduction and avoid repeated introduction and overlapped construction. Repeated introduction in processing industries causes enterprises to kill one another, and is not conducive to expanding exports. Third, in terms of the modes of introducing foreign funds, the mode of joint venture should be used more. It might be more beneficial to use the mode of joint ventures than that of loans to transform state-owned enterprises. Fourth, to better attract foreign funds, domestic markets will have to be opened. After all, it is better to use commodities produced by joint ventures than imported goods. At least both employment opportunities and tax income will increase. If work is

unfolded in accordance with this thought, the absorbing of foreign funds not only will not "overheat," but also a higher temperature will be needed.

He also stressed that planning must be strengthened in the work of introducing foreign funds, a market economy does not mean casting away macro-management, and the planning and management of foreign funds is also part of the market economy.

Afterwards, Professor Li Yining changed his topic and said that we may take a long-term perspective for the work of introducing foreign funds. The future of China's long-term development lies in the western part, which lacks funds for its development. We must integrate resources development in western China with the introduction of foreign funds. He believes that at present the economic disparity between western China and the east coastal regions is becoming greater and greater. This is a natural stage. However, the more developed the east coastal regions, the more expensive the land will become and the higher the cost of labor. Then funds will naturally be transferred to Western China. This is the law. The Western part will have to be developed, but judging from its natural conditions, the eastern part will enjoy faster development. The disparity will be further exacerbated. This is unavoidable. At the same time, the eastern part will experience faster development. This also creates conditions for the development of the western part. Professor Li Yining asserts that some day the western part will have a bright future. But this will be in the first half of the 21st century.

How should the development of the western part be approached? According to Professor Li Yining's analysis, the western provinces near the border areas can develop border trade, which will play a certain role in enlivening economy. The biggest difficulty will befall the areas that are not along seas, rivers, or borders. These areas have no ways of getting in touch with international economies.

In the light of the issue of the west, Professor Li proposed the new viewpoint of "external blood generating." He explained that "internal blood generating" is difficult for the poverty-stricken areas, and blood transfusion will go nowhere either. In this connection, Qingyuan City, Guangdong has explored some experience, which is the establishment of "helping the poverty-stricken development zones." In places where foreign businessmen were not willing to go factories have been built with introduced foreign funds. The manpower was organized to work in turns in the factories. Money earned was brought back to their localities to be used for the establishment of branch factories. "Producing blood" by using others' land and injecting the blood back into oneself can be the experience to draw on. He wonders whether the inland provinces can do the same way.

In addition, Li Yining said that the western part and the inland poverty-stricken areas cannot afford to do nothing but wait. Establishing development zones by borrowing land, and setting up "external blood generating" bases to speed up self-development may after all be accepted as a way out.

Hainan To Adjust Foreign Capital Policy

93CE0348B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 6,
15 Feb 93 p 26

[Article: "Hainan To Adjust Policy on Use of Foreign Capital"]

[Text] Hainan Province intends to adjust its policy on the use of foreign capital to extend the scope of investment by foreign businessmen. The latter can make business investments in all items that are not clearly stipulated as prohibited by the state in Hainan.

According to Huang Xianglin [7806 7449 2651], deputy director of the Hainan Rural Economic Cooperation Department, the main points of the adjusted policy on investment by foreign businessmen that is being prepared are:

Foreign investors are permitted, with one industry made primary, to crisscross businesses, and they can invest in all items that the state has not clearly prohibited.

Provincewide, the international practice for foreign enterprises in which items are first registered and afterward examined and approved will be followed. It is understood that this practice has been tried out in Haikou City with very good results.

All high tech products produced by enterprises that are either partially or wholly foreign-owned are permitted, after approval has been obtained, to be sold inside the country.

With regard to large- and medium-sized industrial and agricultural projects and export-oriented projects, the proportion sold inside the country can be expanded, changing investment into markets, and changing technology into markets.

To create a more comfortable investment climate for foreign businessmen, relevant provincial departments are preparing to establish an authoritative, feasible specialized service organization to provide foreign businessmen with a complete set of services in the course of preparing to build, rebuild, and put into production, helping them to solve all the difficult problems that can be encountered in land requisition, use of electricity, post and telecommunication, and road construction.

Overseas Investment Benefits Economic Progress

93CE0414B Beijing GUOJI SHANGBAO in Chinese
21 Mar 93 p 1

[Article by Wang Yan (3769 8827): "The Political Consultative Conference Sets Up Bridges To Introduce Overseas Chinese Funds"]

[Text] The system of political consultation is the embodiment of Chinese democratic politics. While participating in and discussing politics, members of the political consultative conference are playing a more and more important bridge role in contacting overseas Chinese and attracting overseas Chinese investment and capital from Taiwan, Hong Kong and Macao to serve China's economic construction.

According to incomplete statistics, since the policy of reform and opening to the outside world was adopted, about 80 percent of China's joint ventures were established with investment by overseas Chinese, Chinese, and compatriots from Taiwan, Hong Kong, and Macao. Overseas Chinese, Chinese, and compatriots from Taiwan, Hong Kong, and Macao donated to China over 10 billion foreign exchange renminbi to initiate cultural, educational, health, social welfare, public infrastructure, and industrial and agricultural production construction projects. In 1992 alone, 37 well-known overseas Chinese businessmen came to mainland China to sign contracts or agreements for 72 projects, of which 26 had more than \$100 million of investment. The field of investment and cooperation involved infrastructure such as transportation, energy, high-tech industries, commerce, finance, realty, and land development. The direction in which funds are invested has widened and shifted from labor intensive type to funds and technology intensive type.

In attracting overseas Chinese investment, various democratic parties have played a role that cannot be ignored. Many members of democratic parties are returned overseas Chinese and their relatives. They have broad social connections among overseas Chinese and compatriots of Hong Kong, Macao, and Taiwan. Since reform and opening to the outside world, by conducting multi-level, multi-channel, and various overseas friendship activities, they assisted in introducing funds to initiate joint ventures, and donated money to initiate local undertakings of public good. The China Zhigong Party alone has over a period of 10 years assisted in introducing funds worth 1.29 billion yuan, \$1.41 billion, and HK\$780 million.

During the present political consultative conference, quite a few members mentioned in their speeches that 50 million overseas Chinese are an advantage to China, overseas Chinese have abundant economic strength, a number of specialists who have a good grasp of modern science and technology and management know-how, and are a force to support speeding up China's modernization program. Overseas Chinese have world-wide commercial and marketing networks, and can help home-made products open up international markets. Overseas

Chinese have broad connections with China, understand the domestic situation, are familiar with domestic policies, know the language, and sentiments are connected. All these are more conducive to cooperation and exchange of both sides. China is trying to further continue reform, expand opening to the outside world, introduce from abroad funds, advanced technology and equipment and modern management experiences, promote the development of domestic economy, at the same time develop an overseas oriented economy, and expand the international market, overseas Chinese are an important force that can be relied on.

The members also suggested in their speeches that in the work of affairs related to overseas Chinese, in addition to "falling leaves settle on their roots," it might be good to advocate "many flowers blossom," from the angle of transnational management and fund multiplication, in a better planned way to attract overseas compatriots and overseas Chinese to return to China to do business so that the tradition of loving their country and loving their hometowns will be passed on forever in the form of modern economic cooperation. Consideration might have to be given to whether to choose to establish "Chinese Metropolis" in places that have appropriate conditions for transportation, communications, and port affairs. By so doing, on the one hand, good places for investment can be created for overseas Chinese compatriots and funds can be pooled together; on the other hand, through the metropolis can we absorb talented personnel and intelligence from abroad, encourage investors to introduce into China internationally practiced accounting systems, financial systems, and attorney systems so as to set up for China "economics universities" that train personnel for an overseas oriented economy. Studying abroad can be achieved without leaving the country.

Joint Ventures Urged To Raise Management Levels
93CE0414C Beijing GUOJI SHANGBAO in Chinese
14 Mar 93 p 1

[Article by Zheng Jingbo (6774 7234 3134): "Joint Ventures Must Combine Wisdom"]

[Text] Recently, I read two newspaper articles on joint ventures: One was about a foreign manager who came to invest in China, and took the initiative to require that a trade union be set up in the joint venture in which he had invested, hoping that the staff would participate in democratic management. The other piece of news was about the Chinese general manager of a joint venture clinging obstinately to his own course, overstepping his authority, and making poor management decisions. As a result, the enterprise suffered losses and the foreign businessmen proposed withdrawing from the venture. These two news articles have led to various reflections on my part.

In recent years, with increasing expansion of the country's opening to the outside world, joint ventures have sprung up rapidly like mushrooms after a spring rain. In some joint

ventures both sides cooperate with faith and dedication, learn from other's strong points to offset weaknesses, attach importance to cooperation in material things such as funds and equipment, and at the same time put more emphasis on cooperation in wisdom such as technology and management. Consequently, joint ventures have become an integration of strength, and have achieved the best economic efficiency. But it is reported that at present economic efficiency in some Sino-foreign joint ventures is not ideal. An important reason for this is that wisdom is not pooled very well in joint ventures. Managers of a few joint ventures believe that as long as cooperation is achieved in the areas of funds, equipment, and so forth, economic efficiency will equally be achieved. As a result, they only paid attention to the "hardware" of pooling funds at the expense of neglecting the "software" of pooling wisdom. They attended to one thing and lost sight of another. For example, some of them impractically copied foreign management practices; some placed excessive emphasis on "in Rome do as Romans do," and used old and backward management models to handle advanced equipment. In management and decision making the responsible people of some joint ventures were unable to correctly absorb different opinions of the other side These practices have affected the coordination and operation of joint ventures, with some having turned into great repulsion, and counteracted the advantages of both sides.

The organic integration of pooling funds and pooling wisdom is a fundamental requirement for joint ventures to proceed well. If both sides of joint ventures, on the basis of bringing into full play individual wisdom, proceed from the interest of the situation as a whole, trust each other, respect each other, and pool together their funds and wisdom, joint forces and joint benefits will inevitably come into being.

TRANSPORTATION

Nanjing To Build New Airport With Foreign Capital

HK0305092793 Beijing ZHONGGUO XINWEN SHE in Chinese 1321 GMT 16 Apr 93

[By reporter Shao Ping (6730 1627)]

[Text] Guangzhou, 16 Apr (ZHONGGUO XINWEN SHE)—Shen Zhencai, deputy secretary general of the Jiangsu Provincial Government, came to Guangzhou to attend the Guangzhou Export Commodities Fair and said here today that construction of the new Nanjing international airport is estimated to begin late this year and that 40 percent of the investment will be introduced from Hong Kong, Macao, and overseas.

The total investment will be 1.6 billion yuan, of which 40 percent will be foreign funds.

Shen Zhencai told this reporter: The new airport will be situated at Lukou, Jiangning County, 30 km southeast of Nanjing. The airport will have two runways of 3,600 meters each and a waiting area covering 70,000 square

meters. The airport will be completed in late 1995. It will handle 8.5 million tourists a year by the year 2000.

Shen Zhenzai continued: To improve Jiangsu's investment environment, Jiangsu will, apart from the new airport, build up a large number of infrastructural facilities including a number of large modern power stations, an expressway linking Nanjing with Shanghai, and a big bridge spanning the Chang Jiang at Jiangyin, Jiangsu. The mobile telecommunications network linking seven cities along the Chang Jiang has gone into service.

Beihai Begins Domestic, International Air Travel

OW0505133093 Beijing XINHUA in English
0841 GMT 5 May 93

[Text] Beihai, May 5 (XINHUA)—Beihai City, one of China's coastal open cities in south China's Guangxi Zhuang Autonomous Region, is opening its airways to the world.

Following State Council approval last year, the city has inaugurated eight new domestic routes and one international service.

Forty flights a week now connect Beihai with Beijing, Shanghai, Shenzhen, Shantou, Guangzhou, Guilin, Changsha and Kunming.

Beihai is also planning to open several more international services to Singapore, Thailand and Vietnam.

AGRICULTURE

GATT's Potential Impact on Grain Sector, Solutions

93CE0423A Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 3, 10 Mar 93 pp 37-38

[Article by Chen Yuanzhen (7115 0337 2182) of Zhejiang Province Yuyao County Grain Bureau: "Impact of China's Re-entry in GATT on Grain Sector and Policy Recommendations"]

[Text] In 1986, China officially presented a note to the Director General of the General Agreement on Tariffs and Trade [GATT] requesting re-entry in the GATT, and taking its place as one of the signatory countries. To meet the GATT's basic requirements, China has also done a great deal of work in terms of policy readjustments in the last few years. At present, the GATT has basically concluded its evaluation of China's foreign trade system, and has reached the stage of substantive negotiations over details of the GATT agreement. All indications are that China will re-enter the GATT in the foreseeable future. Therefore, what impact will China re-entering the GATT have on the grain sector of our economy? What policies should we adopt to deal with this situation? This article is an attempt to superficially explore these questions.

I. Impact of GATT on Grain Sector

(A) The positive impact of the GATT on our grain sector will be manifested mainly in the following respects:

1. Reform in China's grain sector is moving toward the market economy, and grain circulation should naturally be directed toward both the international and domestic markets, and through a rational grain pricing system ultimately tie into the international market so that China's grain sector will be an organic component of the world grain commercial market.
2. With increasing worldwide demand for grain, entering the GATT will benefit the development of China's grain export trade. China is the world's second largest exporter of corn, and the fifth largest of rice. The increasingly mature grain sector in China's economy is an advantageous precondition for the development of our grain export trade after China becomes a member of the GATT.
3. Subsidies which developed countries extend to their agricultural products will negatively affect the interests of developing countries. As a consequence, agricultural products of developing countries will be put in a competitively disadvantageous position in the international market. China is not only an agricultural importing country, but also an agricultural exporting country. After entering the GATT, by adjusting the grain products mix, China can vary the exports and imports depending on the countries involved, and this will be to China's advantage in terms of conserving foreign exchanges.

(B) The negative impact of China's re-entering the GATT on our grain sector will be seen in terms of the following:

1. In the world market, prices of some agricultural products are low which will undoubtedly impact our domestic grain market. Looking at the world price levels of various grains, corn and rice prices are higher than those in China's domestic market, and only the price of wheat is lower than our domestic market price, with the FOB price at around \$130 per ton. We should be alert to this type of situation. Because after entering the GATT, as a result of the developing international grain trade, it is possible that some foreign countries will export even larger quantities of wheat into our domestic market. This will have a serious impact on China where wheat constitutes 20.7 percent of the country's total grain production.
2. Given the extreme shortage in the variety of high-quality grain products suitable for export, China will lack competitiveness after entering the GATT. At present, China's rice exports consist mainly of long- and medium-grain rice and millet which are lacking in variety, low in quality, unsuitable to the needs of the world market; they lack the necessary competitiveness. For example, before 1983, the rice exported to Hong Kong from the mainland accounted for 50-60 percent of Hong Kong's total grain imports. But since 1985, the sale of mainland rice in Hong Kong gradually declined, from 151,000 tons or 40 percent in 1985 to 97,000 tons or 26.6 percent in 1988. During this same period, Thai rice as a share of the Hong

Kong market rose from 40 percent in 1983 to 57.7 percent or 210,000 tons. Therefore, after entering the GATT, the lack of variety and low quality of China's grain products mix will inhibit expansion in the world grain trade.

3. Traditional ideas on grain circulation negatively influence the development of China's role in the world grain trade. After entering the GATT, China will carry out grain export trade equally with many different countries, and compared to domestic grain trade, developing international trading activities is more complex and difficult. Influenced by the traditional planned economy over a long period of time, the Chinese still have fixed ideas which emphasize production over sale, and domestic trade over export. They hold on to ideological concepts which are no longer appropriate and they lack the ability to penetrate both the domestic and international markets. Those engaged in grain enterprises lack export trade experience, and some of them are afraid of taking risk and losing their investment. These people lack the ability to refine and further process the grain products, and are totally ignorant of what kind of finished grain products have high sale appeal abroad. Therefore, after entering the GATT, numerous difficulties will still confront our grain enterprises as they move toward the international market.

II. Policy Recommendations

First, we should liberate our thinking, change our concepts and increase our awareness of the opening to the outside world.

After China re-enters the GATT, China's grain market will be an important component in the world grain market. But in China today, there is hardly any awareness of impending danger on the part of many micro-organizational units dealing with grain. Therefore we should take further steps to liberate our thinking and change our concepts from emphasizing quantitative increase in grain production to qualitative improvement of the products, from selling grain in a domestic market to selling in both the domestic and the world markets, and from focussing on the production environment to integrating supply and demand with domestic and foreign trades. We should increase knowledge of the market economy, with orientation toward the world market, and conscientiously study foreign management experiences useful for China to sharpen our sense of urgency and increase our ability to respond to changes.

Second, based on careful scrutiny of the international market, we should change our export structure and increase our foreign exchange earning capability.

For historical reasons, China's technological and precision level is still rather low in the manufacturing and processing of grain products. Given the fact that the quality and ranking are low, with the technological standard still rather crude, the result unavoidably is that export products have low added value. It is hoped that under the GATT China will gain the long-term benefits from the multilateral trading of agricultural products.

We should strive to obtain preferential treatment given to a developing country. In addition, we should introduce a production system equipped to handle the manufacturing and processing of grain products that are suitably priced and relatively advanced in terms of technological standard and craft techniques. At the same time, we should establish processing zones to produce an assortment of special and brand-named products that are of good quality, have higher added value, and can generate more foreign exchange earning. We should also provide financial and technological assistance to change the export system for China's grain and processed grain products, to increase economic returns, and international competitiveness of China's export grain products.

Third, we should analyze closely the developing situation, devise a trade strategy, and seize the initiative.

The international grain market is in great flux and fiercely competitive. Big capitalistic grain-trading countries constantly resort to different tactics by shifting the agricultural crises, or by competing for a grain market share abroad to seek the highest possible profit. Therefore in grain export trade, China must maintain a clear head, carefully analyzing the developing situation, devising a trade strategy and seizing the initiative. China's grain export trade should be carried out under the government's macro control; we should coordinate our policies and be united to face the outside world to prevent "any profit from flowing to others." At present, there are still defects in China's grain supply and demand, and we now regulate them by relying on our domestic grain market. In addition, we should certainly use advantageous opportunities created by changes in the international grain market, import grain in a timely manner, and also carry out barter trade. International experiences demonstrate that importing large quantities of grain over a long period of time will result in decline of domestic grain production causing the country to lose its initiative in grain. Therefore to protect the domestic grain market and grain production, we should maintain a basic equilibrium in the quantity of imported grain.

Fourth, China's grain enterprises should concretely strive to establish multinational integrated trading companies.

In the grain market economy under socialism, grain circulation is essentially an open process. Therefore, grain enterprises should not only establish domestic conglomerate companies as a start, but should also concretely strive to establish multinational integrated trading companies. Such integrated trading companies have not only advantages in the domestic grain market by integrating labor and capital and promoting efficient, high quality grain production, but also the ability to penetrate the international market and carry out multinational trading. This development will require us to break out of the confines of the traditional system, to solve the problem of "grain export cannot begin in the domestic market, and the domestic market grain cannot be seen abroad," and to authorize some of the grain enterprises and trading groups to engage in export and

import services. The government should also provide various preferential policies and facilitating conditions to grain enterprises and trading groups to encourage them to break into the international market and concretely develop multinational operations. Therefore henceforth, grain enterprises should make the effort in their daily operation to gradually internationalize its accounting, standardize its services and product quality, and to strive toward achieving operational cost-effectiveness. We should understand clearly the situation of grain supply and demand abroad, be thoroughly knowledgeable about export enterprises to smoothly direct domestic grain circulation into world grain circulation channels, and strengthen our economic competitiveness abroad.

Gu Xiulian Comments on Farm Chemicals Industry

93CE0408A Beijing JINGJI RIBAO in Chinese
4 Mar 93 p 3

[Article: "New Line of Thinking on Developing Agricultural Chemicals"]

[Excerpt] [passage omitted] After the conversation touched the main topic, Minister Gu made clear the purpose and main theme from the very beginning and said: "Agricultural modernization must be guaranteed by the modernization of agricultural chemicals. The quantity of agricultural chemical industrial products needs to be further increased; there is no doubt about this. However, at present and in a period of time to come, the emphasis is put on reorganizing the structure, increasing product variety, and improving efficiency."

According to Comrade Gu Xiulian's briefing, currently, the chemical fertilizer output in China is 97.4 million tons, an increase of 230 percent from 1978, ranking second in the world just after the United States. The output is attributed to the support given by 1,775 enterprises, of which 37 are large enterprises, 57 are medium enterprises, and the remaining 94.7 percent are small enterprises. Enterprise structure is irrational. In terms of product variety, there are 1,097 nitrogenous fertilizer enterprises, 529 phosphate fertilizer enterprises, and only one potash fertilizer enterprise. As required by agricultural departments, the ratio between nitrogenous, phosphate, and potash fertilizers must be 1: 0.5: 0.2. In 1992, the ratio was only 1: 0.3: 0.007. There was still a long way to go to achieve the required ratio. Currently, highly concentrated compound chemical fertilizers constitute 40 percent of the total quantity of chemical fertilizers. Nitrogenous fertilizer contains mostly common carbon ammonium. The proportion of common calcium in phosphate fertilizer is as high as 94 percent. The ability to develop new varieties of farm chemicals is relatively limited. Plastic film for farm use is underdeveloped, and fodder additives have just taken off. These are all industries with potential in the future that call for great efforts to develop.

As far as the future development of the chemical fertilizer industry is concerned, Gu Xiulian believes that we should attach particular importance to the use of two resources, and make further and greater use of foreign capital. We should do a good job of domestic work, strive to absorb foreign capital, set up a few large enterprises, and at the same time, intensify transformation of old enterprises, mainly medium and small chemical fertilizer enterprises. From the beginning of 1988 to the end of the Eighth Five-Year Plan, China allotted 7 billion yuan in investment to transform small nitrogenous fertilizer enterprises so that they will have a capacity of 7 million tons of urea; among which 4.2 million tons can be achieved by the end of this year. The energy conservation transformation projects launched by the support of the Ministry of Finance, such as the "binary water closed-circuit circle" and the "turning two kinds of coal into one" in fuel and materials, have been completed in 240 factories. Thus, the annual conservation of coal is 350,000 tons, and that of water is 500 million cubic meters. These works still need to be intensified in the future.

The restraining element for the development of phosphate fertilizer industry is natural resources. Due to transportation problems, the shipment of phosphate ore from the southwest to the other parts of the country is handicapped. According to the new line of thinking, the situation that domestic natural resources cannot be exported and overseas natural resources cannot be imported has to change. It is wise to probe a path in which the south will export resources while the north does the opposite. In other words, China can import phosphate ore from Russia or Kazakhstan to complement the insufficiency in the north, and at the same time, export phosphate ore from the southwest to Southeast Asia so as to enhance our ability to earn foreign exchange. This will help not only meet the pressing need for phosphate that is insufficient for agricultural industry, but also help the economy operate more rationally.

As an industry in support of agriculture, chemical fertilizer enterprises have been operating at a marginal profit for many years. The development of market economy has made the price of coal, electricity, and transportation go up steadily, and the chemical fertilizer enterprises found it difficult even to preserve their capital. A large number of enterprises had losses. In accordance with the principles of the market economy, while deregulating chemical fertilizer prices, consideration should be given to peasant's ability to withstand the strain. Between these two dilemmas, how should the chemical fertilizer industry make a choice?

Minister Gu said that now all countries in the world, whether they are socialist or capitalist, are pursuing a subsidy policy toward agriculture to support its development. In setting reasonable and appropriate price level for the chemical fertilizers, we should give consideration to production enterprises' ability to withstand the strain, and ensure that peasant income will increase as production expands. The state supports agricultural chemical

industry, which means it also supports agricultural production. Creating a relatively loose environment for the agricultural chemical industry has a bearing on the national economy and the people's livelihood. The state should give support in terms of investment, interest rate, taxation, and so on. Otherwise, if support solely depends on private enterprises, not only will the strength be limited, but it will be difficult to maintain for long. Once the agricultural chemical industry enterprises cannot bear the heavy burden and go bankrupt and collapse, the agricultural chemical industry will be adversely affected. At present, China's tariff on imported chemical fertilizers is far below the average tax rate of other developing countries. Moreover, the impact of subsidies on domestic chemical enterprises is unfair, and it is not in line with the principles of market economics.

In regard to agricultural chemical industry enterprises themselves, Minister Gu said that they should increase input in science and technology, enhance their ability to develop new products, lower the cost by all means and develop comprehensively, and strive to achieve a benign circle in their own development in the course of orienting themselves to the market. Certainly, some small enterprises need to close down and change lines of production; large and medium enterprises are encouraged to expand their productive capacities to help rationalize the scale of operation and promote the whole agricultural chemical industry to gradually move toward economies of scale and improve economic efficiency.

When talking about investment in the agricultural chemical industry, Gu Xiulian believes that the past situation in which the state was the sole investor must be changed. In 1993, 65.7 percent of the investment in chemical industry construction was used in agricultural chemical industry. However, it was far from being enough. As a result, in addition to the increasing investment of the state in various aspects, efforts should be made to raise funds through many channels, and open up new avenues for funds. The central government should financially support phosphorous, sulphur, and potash mines. Central and local governments, and foreign investment should support the phosphate compound fertilizers project. Nitrogenous fertilizer project should be funded and operated by local governments. All funds should be fully used in developing farm chemicals, plastic film, farm rubber, and fodder additives.

Concerning the arrangement for the agricultural chemical industry in 1993, Minister Gu said that the output level of chemical fertilizers is expected to pass the top mark of 100 million tons for the first time, and amount to 105 million tons. According to the plan, 210,000 tons of farm chemicals will be turned out. This way except for potash fertilizer, partial compound fertilizers and a small

amount of dry land weed killers still need suitable import, the supply of other chemical fertilizers can satisfy the needs of agriculture. To guarantee the implementation of the policy of "three links" among the peasants, this year the chemical industry enterprises will provide the state with an additional 10 million tons of state-controlled chemical fertilizers. This requires the state to supply an additional 500 million cubic meters of natural gas, and 1 million tons of lump anthracite. Proceeding from the overall situation of supporting agriculture, the State Planning Commission, the Ministry of Energy Industry, the China National Petroleum Corporation, and the Ministry of Railways are now actively coordinating with each other. According to the production plan of phosphate fertilizer, 7.6 million tons of phosphate ore need to be shipped from Yunan and Guizhou. So far, the shipment of just 4.8 million tons have been secured. If the transportation problems cannot be solved, the output of phosphate fertilizer will drop by 4 million tons.

Lastly, Gu Xiulian emphasized that in developing the new line of thinking, the greatest challenge facing the agricultural chemical industry is how the industry will move toward the market economy as quickly as possible. To do this one must first break down barriers, establish the idea of larger trade and markets, overcome the mentality of self-formation of a complete system, and genuinely orient the industry to both domestic and overseas markets.

Last year the Minister of Chemical Industry did a lot of work in transforming the style of work and changing mechanism. They specially selected a number of department and bureau directors and sent them to Hong Kong to receive training. They held a meeting on the work of opening up to the outside world and a second meeting on scientific and technological progress work. They organized international chemical industrial exhibitions. The work of opening up to the outside world and "rejuvenating science and technology," has made new advances in terms of depth and breath. They also built chemical industrial markets one after the other in places such as Beijing, Yantai, Jilin, Shanghai, and Nanjing. The management of chemical industry production is clearly revolutionized. The General Production Department, which is in charge of overall management of the country's chemical industrial production, issued 21 percent fewer ministerial-level documents and 28.4 percent fewer departmental-level documents last year, and cut the number of meetings by 28.4 percent. A department director in the Ministry of Chemical Industry said that everyone in the ministry's organization is thinking about his position in the mighty current of the market economy.

After saying goodbye to Minister Gu, I felt a bit more confident about the development of China's agricultural chemical industry.

Poll on Perception of Current Reforms
93CM0229A Hong Kong TA KUNG PAO in Chinese
3 Mar 93 p 14

[Article by Chang Yen (4545 6056): "The Public Is Optimistic About Reform Prospects"]

[Text] A "poll of 1,000 Qingdao residents" begun in October 1992 by Public Opinion Studies Institute at China People's University and GONGGONG GUANXI BAODAO and other units, ended the other day. This poll shows that public satisfaction or relative satisfaction with mainland China's current social, political, and economic conditions, as well as optimism or relative optimism about China's political and economic development prospects for the next five years, are all above 70 percent. On the other hand, more than 35 percent of urban residents are still dissatisfied or not very satisfied with mainland China's current social customs and interpersonal relations.

It is understood that this was one of the most wideranging and thorough polls in the field of urban public issues and administrative efficiency studies in mainland Chinese history. The poll was targeted at Qingdao residents over 16 years of age. The pollers note that a public opinion poll of the urban residents of Qingdao, one of mainland China's first batch of open coastal cities located in north China's economically-developed province of Shandong, is of reference value for all of China.

This poll came only eight months after a similar one conducted by the Public Opinion Studies Institute at China People's University around the time of the Spring Festival in 1992, with the unprecedented whirlwind of reform set off by Deng Xiaoping's intervening southern-tour speeches bringing a clear change in several comparable statistics in the two polls. For instance, the current poll's figures on satisfaction and relative satisfaction by urban residents with mainland China's current social, political, and economic conditions are 75.4 percent and 75.7 percent, respectively, which figures were 59.4 percent and 60.3 percent, respectively, in the previous poll. This poll's figures on optimism and relative optimism about mainland China's political and economic development prospects for the next five years are 72.6 percent and 79.1 percent, respectively, both being more than a dozen points higher than their 56.9 percent and 64.8 percent, respectively, in the previous poll.

But as to the two major immediate issues that mainland Chinese public opinion was most dissatisfied about in the previous poll, the deterioration in social customs and the "slide" in interpersonal relations, this poll still shows that 35.4 percent and 36.4 percent of people, respectively, are still dissatisfied or not very satisfied.

This poll also shows that mainland China's new reform and opening measures in the 1990s have brought many real public benefits. As to individual living standards in comparison to two years ago, more than four-fifths of Qingdao

residents note some or a clear improvement in the areas of "food," "clothing," and "consumption," which figures are 88.5 percent, 87.4 percent, and 83.6 percent, respectively, with 46.4 percent still noting "no change" in housing conditions, and 5.3 percent even believing that their housing conditions have "worsened."

As mainland Chinese society is now in a transitional phase, in which old social norms have been broken and new ones have not yet evolved, social life has lost its criteria. This poll also shows a public mindset of conflict and confusion during this phase.

1. While hoping for further reform and opening up developments, the public also has many anxieties. This poll finds that 90.6 percent believe that "China's reform and opening up has entered a new phase since Deng Xiaoping's southern-tour speeches," 87 percent feel that "reform and opening up have brought vigor to society and material benefit to the people," and 82.8 percent emphasize that "without corresponding political reform, economic reform will be unable to make great progress." Meanwhile, 47.1 percent believe that "while reform and opening has great momentum at present, there has certainly not been a clear improvement in actual work," 64.7 percent basically agree with the statement that "inequality between rich and poor and polarization are now growing increasingly severe," and 41 percent are concerned about the faster pace of reform and opening up causing another bout of "economic overheating."

2. While the public feels a sense of urgency about reform and opening up on one hand, it lacks the corresponding ideological, psychological and material preparations on the other. This poll shows that the vast majority of urban residents approve or basically approve of a series of designated reform policies, with support being highest for "pension benefits policy" at 75.4 percent, second for "housing reform policy" at 74.9 percent, third for "public health care policy" at 74.2 percent, fourth and fifth for "labor employment policy" and "pricing policy" at 69.9 percent and 69.3 percent, respectively. But sizeable numbers are worried about particular reform measures, being concerned about the inability to sustain them economically and the loss of certain existing benefits. The poll finds that people generally believe that the state and work units should still bear the complete responsibility in the areas of housing, medical care, and retirement insurance, most of the responsibility in the areas of education and technological training, and part of the responsibility in the areas of recreational and sports activities and jobs for their children, which shows that most people are still highly dependent on the state and their work units.

While living conditions have improved in recent years, 54.4 percent still express "little ease of mind," for the following reasons: 1. The social atmosphere is unhealthy. For instance, 79.3 percent believe that "public banqueting and gift-giving is becoming increasingly rampant." 2. Public profit distribution and policy orientation are somewhat wrong. For instance, 42.7 percent

disagree with the statement that "the social state in which the good and honest people get the worst of things has clearly improved." 3. Public opinion channels are closed. For instance, 43.5 percent note that "there is no place for the people to have complaints dealt with, and suffering without redress is quite prevalent." While urban residents affirm the role of channels, such as phone calls to the mayor's office, the news media, government mail polling departments, and people's congresses, in reflecting public opinion, 33.3 percent and 23.1 percent, respectively, still believe that problems can be solved only through unofficial channels, such as "asking friends to make use of their connections" and

"giving presents (bribes)." Another 48.7 percent believe that enterprise reform has weakened the standing of employees as the masters of their fate, leaving them feeling like hired hands.

Pollsters point out that China needs to reestablish as quickly as possible social norms under socialist market economy conditions, by building an awareness of the good social customs of justice, honesty, equality, competition, and pay based on work, so that reform will bring real benefits and more hope to honest, law-abiding workers.

Guangdong Confiscates Thousands of Replica Pistols

HK0605105593 Beijing ZHONGGUO XINWEN SHE in Chinese 1017 GMT 22 Apr 93

[By reporter Zhang Chuanxi (1728 0278 3556)]

[Text] Guangzhou, 22 April (ZHONGGUO XINWEN SHE)—Guangdong has seized several thousand replica pistols over the past month since it carried out a special-purpose campaign to prohibit replica pistols.

Zeng Tiangui, a department chief of the Guangdong Public Security Bureau in charge of this campaign, indicated when interviewed by this staff reporter: Since

Guangdong police began prohibiting replica pistols at the end of last month, public security organs in all localities have unfolded this campaign and many localities have organized and sent working teams to grassroots units to strengthen supervision and inspection.

Among the several thousand replica pistols already confiscated are teargas pistols, steel ball pistols, and electric shock pistols.

Guangdong's campaign to prohibit replica pistols will last till the end of this June. It has been learned that a number of people convicted of illegally owning replica pistols will be punished in public during the period.

EAST REGION

Political Corruption in Shanghai Stock Market

*93CM0180A Shanghai SHEHUI [SOCIETY]
in Chinese No 12, Dec 92 pp 31-32*

[Article by Ni Jinlong: "The Justice System Lifts the Dark Cover Over the Stock Market"]

[Text] Presently, the topic of stocks has become popular in after-dinner discussions. Playing with stocks is still considered by some to be a way of making a fortune. When tides are sweeping across the stock market, playing the music of "some happy, some sad," who would think that in dark corners some people are putting on one ugly performance after another in relation to stocks.

The Temptation of Power

In the summer of 1990, because of the entry of "dealers" from Shenzhen and other places, the Shanghai stock market—which had been a deserted place and which had been fluctuating at low prices for as long as four years—warmed up suddenly in an abrupt change. Stock prices, as if on a spiral, rose continuously. The huge price jump at the stock market immediately attracted tens of thousands of people to the market. At that moment, as the stock fever was under way, securities company employees who were engaged in trading saw their status rise greatly, thereby becoming the targets of the fawning and courting carried out by the "stock dealers."

In mid-summer, the persistently high temperatures were baking the city and turning it into a big steam cooker. As night fell, pressured by the heat wave, residents who were unable to stand the heat sought refuge outdoors along the street. Meanwhile, a not very large room in a building on Yanan Street near the city center was filled with smoke; there three black heads were bent toward each other despite the summer heat, in the process of making a dirty "deal."

Seated on a sofa, a young man dressed all in brand-name clothes and making smoke rings in a graceful manner, was launching frequent "attacks" on Yao, a deputy director of the operation department of a securities company, who was sitting at the other end of the sofa.

"Director Yao, you have the power. All you have to do is just relax a little bit. I will not make things difficult for you, and will be satisfied with just 1,400 shares of the Electronic and Vacuum Product Company."

"That is right! Give a little help, please. He is my best friend. You have to give him face in this case. On the other hand, he will not . . .," jumped in a relative of Yao also present.

"But, this . . . this is illegal, you know! In addition . . .," Yao moved forward slightly, and muttered to himself.

"Director Yao, although we are dealing with each other for the first time, I Li am also a 'scalper' and know the ways. I

absolutely understand the situation, I can absolutely handle it. Also, we will just do this once. Only you and I will know" Then Li put forward his entire plan....

After a round of "negotiation," Yao—who had been immersed in thought for quite some time—rose, wiped away the sweat on his forehead with a handkerchief, and finally gave his agreement in the words "all right." In this way, a deal was done.

Not long afterwards, Li got the 1,400 shares of the Electronic and Vacuum Product Company. After selling them once, Li made over 33,600 yuan from price differentials. Certainly, Li kept his promise, and personally went to Deputy Director Yao's home to express his gratitude by giving Yao a heavy "envelope."

Yao got a large amount of money by only making use of his power in a minor way. The 9,000 yuan, which equalled several month's salary for Yao, came easily. This event, like a potent stimulant, gave a strong shot to his central nervous system. After that he became even bolder.

Insatiable Desires

In October 1990, as if possessed, the Shanghai stock market saw prices rising persistently, thereby becoming a magnet attracting people of all circles. A securities company at a busy street was crowded with people, presenting an extraordinarily bustling scene. As the securities company was still in its early stage and did not have enough manpower, it became really difficult for it to deal with the crowds of people coming in and the business volume, which was doubling. To ensure its safety and reputation, it had to suspend service on ownership transfers. This action worried the big dealers who wanted to conduct ownership transfers. To them, time was money. There would be more money made if the ownership transfer could be completed one day earlier. Therefore, they did all they could to try to get into the securities companies. Through tortuous ways, the big stock dealer Zuo finally got to know Yao who controlled the power at the operation department. After some talk, Yao quickly agreed to complete the ownership transfer procedures for over 770 shares for Zuo, and made good on his promise shortly. Zuo, who would always pay a debt of gratitude, certainly did not forget Deputy Director Yao. A few days later, he treated Yao to a fine dinner at the Jinmen Restaurant. Amid the sound of clinking glasses, Yao not only tasted dishes of rare food, but also received 2,000 yuan from Yao as reward for the favor.

As the saying goes, "those who eat others' food cannot speak the truth, and those who take others' things will pull punches." A few days later, Zuo wrote two letters to Yao asking him to help sell another person's 50 shares of the Electronic and Vacuum Product Company and 129 of his own shares. The understanding Yao did both things for him. At the same time, Yao received a 1,000 yuan payoff.

Greedy people have insatiable desires. After succeeding several times, Yao became confident of his good techniques which hid the deals from everyone, and began to

"exchange power for money" in a wanton manner, thus getting trapped ever more deeply in the quagmire.

In late July 1990, with the help of the go-between Ling, Yao sold 5,000 shares of the Electronic and Vacuum product Company to Huang and Wu at 130 yuan a share, and received 5,000 yuan for the sale.

In August 1990, Yao completed ownership transfer procedures for 700 shares of the Electronic and Vacuum Product Company for Wang and others, receiving a 2,000 yuan payoff from Wang and others.

In February 1991, Yao bought 1,000 shares—owned by others—of the Electronic and Vacuum Product Company for Zhang who then gave him 1,000 yuan....

From August 1990 to May 1990, in his position as deputy director of the operation department of a securities company, Yao took advantage of his job of trading stocks as an agent and handling stock ownership transfers, by accepting bribes on separate occasions totalling 20,000 yuan from people seeking favors.

No Seamless Wall

There is no seamless wall in the world. In early 1991, an anonymous accusation letter came to the procuratorial organ. The municipal procuratorate carried out a careful investigation on the basis of the limited available evidence and succeeded in ascertaining the facts about Yao's hideous conduct in taking advantage of his position to accept bribes. Soon afterwards, a pair of cold handcuffs shackled Yao's hands.

In the interrogation room Yao, who committed a serious crime, could not but confess to having committed the crime of accepting bribes and described the process of his mental evolution.

Like all young people of Yao's age, Yao had once walked a bright, sunlit path. In 1969, together with some warm-blooded youths, he went to the Changhe Farm in Heilongjiang with a strong determination to change the world. Ten years later, he was very fortunate to have the opportunity to return to the city, and was assigned a job as office worker at the savings office of the Jinan Branch of the Industry and Commerce Bank. Thanks to his experience as a teacher at the farm and his hard work in self-study after returning to the city, he quickly became one of the best on operational matters, and was

appointed director of the savings office. With outstanding performance for several years in the position of director, he was promoted first to deputy section head in the second credit department, and then to deputy head of the securities section of a bank. When that bank set up the operation department of a securities company, he was given the important position of deputy director of the department.

Compared with his comrades-in-arms during the Northern Desert days, Yao had been lucky. Life had been kind to him. But Yao was not satisfied with all this. In recent years, with the promotions and change in status, his thinking also changed. At the stock market, everyday he saw some people getting rich quickly through trading in stocks and some becoming rich men with 10,000 yuan in assets overnight. Some became rich men with 100,000 yuan in assets or even millionaires in a short time. Looking around, he saw those with power "using the power," and those with contacts "using the contacts." "Those living beside a mountain eat things on the mountain, and those living beside the river eat things in the river." One after another his nuclear family acquired a comfortable lifestyle, and began to lead a luxurious life. But his family life was of an ordinary kind. Thus there occurred a psychological imbalance. He felt that he did not get his fair share by working hard to make money for others while getting nothing for himself. As a result, the greediness in his subconscious mind suddenly burst out. Tempted by money, finally, he began to play the game of "power-money exchanges."

One Misstep Led to Lifelong Regret

At the Fifth Court of the Shanghai Municipal Intermediate People's Court, a loud, solemn voice resounded in the trial room:

"The defendant Yao committed the crime of accepting bribes and is sentenced to five years' imprisonment; the money received as bribes in the amount of 20,000 yuan will be confiscated."

Tears fell silently. Yao, who had now awakened, was deeply repentant. Surrounded by high walls, he wrote: One wrong decision ruined my life and reputation. I let the party and government down, despite the nurturing they gave me. I let my securities company down. As the saying goes, one single slip brings lifelong regret. I have to drink the bitter wine that I made myself. I accept the sanctions of the law . . .

Li Teng-hui Pushes Political, Economic Reforms

93CM0227B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 312, 6 Mar 93 p 42

[Article by Hsieh Chung-liang (6200 1813 5328): "Li Teng-hui's 'Third Spring' To Face Challenges"]

[Excerpt] [passage omitted] According to high-ranking figures in the Office of the President, the third stage of constitutional revision will be more extensive than the first or second. The party is still in charge of the entire exercise of revising the constitution, with Vice President Li Yuen-tsui [2621 0337 4662] presiding over it. To get the process moving along smoothly, the KMT this year will again set up a constitutional revision work group.

The third stage of constitutional revision, it has been disclosed, will focus on these topics, the practical elimination of the National Assembly; relations between the president, the Executive Yuan, and the Legislative Yuan; and methods of electing the president and vice president. Of these topics, the most controversial are methods for electing the president and vice president and practical elimination of the National Assembly.

Li Teng-hui's plan to remove from the National Assembly the power of consent and the power to elect the president and vice president is expected to arouse strong reactions among the legislators. At a time when the National Assembly is gradually becoming a permanent body, it is more difficult to ask it to give up power than it is to introduce direct elections or election by committee for the president and vice president.

But the system splitting power five ways will be radically transformed in the third stage, without altering the five-yuan basic framework fundamentally. This being the case, there will be no pure presidential system or cabinet system in the future. Instead, the mixed dual-head system will remain.

As for national policy reform, Li Teng-hui will concentrate on strengthening the localities, transforming the economy, and streamlining the administration. A "policy guidance group" led by the government and party, and possibly with Hao Po-tsui as convener will take charge of drawing up the reform plan in this area.

At present the plan to strengthen the localities essentially seeks to solve local fiscal difficulties, and narrow the urban-rural gap, which will involve the division of power between the central government and local authorities, one of the issues to be worked out in the revision of the constitution. For this reason, the provincial chairman will be given a seat on the "policy guidance group." After Sung Chu-yu [1345 2806 3842] takes up the chairmanship, he will be a leader in this field given his role in constitutional revision.

As for upgrading industry and transforming the economy, the policy-making functions of the Commission of National Construction will be expanded. Apart from the adjustment of the domestic industrial structure

and reassessment of the Six-Year National Construction Plan, the agenda of the commission will include trade and economic relations between the two sides of the strait and international trade. In the future the commission will operate as a financial and economic sub-cabinet for the Executive Yuan for all intents and purposes.

As for party reform, after the 14th KMT National Congress amended the party constitution, special party groups will be the first candidates for abolition. The party's policy-making power will be diminished and an effort will be made to turn the party into an election machine. When that comes to pass, the KMT will become a democratic party. Training organizations within the party will also be strengthened. The "Revolutionary Practice Institute" will be substantially beefed up and expanded to help train personnel and accelerate inter-generational turnover.

NKA Leader Interviewed on Intraparty Power Struggle

93CM0257A Hong Kong KUANG-CHIAO CHING [WIDE ANGLE] in Chinese No 246, 16 Mar 93 pp 58-63

[Interview with Chao Shao-kang by Jinnosuke Sakai in Taipei 23 Feb: "Chao Shao-kang To Run for Taiwan's Presidency in 1995"]

[Excerpt] [passage omitted] The following is a transcript of conversations during Sakai's interview with Chao Shao-kang in Taipei on 23 February 1993 (rearranged).

[Sakai] Many people inside and outside of Taiwan are concerned about the movements of the New Kuomintang Alliance, because some people say that the New Kuomintang Alliance is a reformist group within the Kuomintang, and others say that it is a group of second-generation mainlanders within the Kuomintang. First of all, please introduce the organizational structure of the New Kuomintang Alliance.

[Chao] Actually there are many Taiwanese legislators in the New Kuomintang Alliance. Originally nearly half of the members of the Alliance were Taiwanese. We have 12 to 13 members including five Taiwanese. In fact, we do not regard ourselves as a group of second-generation mainlanders. However, outsiders purposefully portray us as such. I can say that there are more intellectuals in the New Kuomintang Alliance. Nearly all the members were college professors. For example, I was an associate professor at the National Taiwan University. Chen Kuei-miao was a professor of the National Chunghsing University and Yu Mu-ning a professor at the National Defense Medical College. Li Sheng-feng was a professor at the National Chengchi University, and Wang Tien-ching and others also studied abroad and taught. Intellectuals tend to oppose authorities, show dissatisfaction and voice disagreement. They are usually not so good at licking somebody's boots. This is perhaps characteristics of intellectuals. Because they criticize others a great deal, and want to reform the party. Therefore, those in power

wish to smear them, and try to make them a minority, saying that we are mainly second-generation mainlanders. However, we are not like this. We hope that the more people we have the better. We do not divide ourselves as mainlanders or Taiwanese, because mainlanders in Taiwan are minorities in Taiwan. Absolutely nobody likes to become a minority. Particularly, the saying that councilmen who are elected by the people seek to become a minority is not logical.

[Sakai] How many members do you have in the legislature?

[Chao] We have less than 20 members. We only have about 10 members. However, some of them are our allies. If we add them in, the total number would exceed 20.

[Sakai] Are Li Ching-hua, Kuan Chung and Wang Chien-hsuen members of the New Kuomintang Alliance?

[Chao] They are not members of the New Kuomintang Alliance. They have not joined us. They are our allies.

[Sakai] What are your political views?

[Chao] We truly pursue and promote democratic politics, and hope to institute a system for democratic competition inside the Kuomintang. The nation cannot be a democratic one, if democracy does not prevail inside its parties, much less the Kuomintang which is the ruling party. Also, there is the issue of social justice. Taiwan has not taken good care of workers, farmers, disabled persons, senior citizens, women and children. Particularly the gap between the rich and the poor is becoming wider and wider, and vast fortunes and land are more and more concentrated. This has promoted money politics which worries people. How can we pursue social justice? The kind of ideological system set up by Dr. Sun Yat-sen when he first founded the Kuomintang is what we should pursue. We believe that those in power in the Kuomintang have already lost their original ideals and virtues. They maintain ties with the local factions, and they are on intimate terms with financial groups. Therefore, their policy is greatly affected by such factions and groups.

[Sakai] At the end of 1992, I came to Taiwan to cover the election of "legislators." At that time, I heard many views and opinions on the New Kuomintang Alliance. Your election in 1992 was a great leap forward, winning a resounding victory. Some people said that mainly proceeding from mainlanders' sense of crisis, you mobilized the mainlanders and intellectuals in Taipei City and Taipei County to cast votes and help your candidates win the seats with a large number of votes. Among the candidates, you won the seat with the largest number of votes. Do you think that the sense of crisis of the mainlanders in Taiwan is becoming more and more acute?

[Chao] I believe that some mainlanders really exhibit a sense of crisis. Their sense of crisis is not one for power, because ordinary people do not have power. They are not concerned about who assumes what official post. Their

greatest sense of crisis comes from the Chinese Communist Party. Mainlanders escaped to Taiwan from the mainland, they experienced communist intimidation and oppression. Mainlanders of the older generation have not forgotten even now. Everyone knows that the Communist Party is dreadful. It did a great deal of burning and killing at that time. They are afraid that the Chinese Communist Party will seize Taiwan in the future. Seeing that the Kuomintang is doing this and that today, they are worried that the Communist Party might attack Taiwan if Taiwan becomes independent. Once fighting begins, the stable situation for which they have worked hard for 40 years will perish. Their true sense of crisis is here. They are not worried about who becomes the premier or minister. This has nothing to do with the 3 million mainlanders in Taiwan. They fear that the Taiwanese leaders have no experience in struggling against the Communist Party and that such leaders do not know how terrible the Communist Party is. If Taiwan declares independence without careful thought and the matter is not properly handled, the Chinese Communist Party will use force. As for myself, more than half of the votes I got in Taiwan are from Taiwanese voters, not from mainlanders. We can figure out the numbers as follows: The number of mainlanders is only 500,000 in Taipei County with a total population of 3.12 million. Sixty percent of the people in the county are qualified voters who are 20 years old or older. There are 300,000 voters, and the rate of voters who actually cast votes is 70 percent. Therefore, there are altogether 210,000 votes. At that time, there were several candidates. For example, Han Kuo-yu was supported by the retired serviceman Huang Fu-hsing party branch. Therefore, most of 80,000-odd votes in support of him ought to come from mainlanders. Hung Hsiu-chu won more than 40,000 votes. I believe that half of these votes come from mainlanders. Many other candidates who are connected with the Huang Fu-hsing party branch also won more than 10,000 votes. Sometimes, voters who are mainlanders will also vote for Taiwanese candidates because the Kuomintang headquarters insists that they do so. I myself won over 235,000 votes, Han Kuo-yu 90,000 votes, Hung Hsiu-chu 40,000 votes, totaling 400,000 votes including some votes for other candidates. This far exceeds the number of mainland voter. As seen from this angle, the question whether the candidate is mainland or Taiwanese remains unimportant so far as voters are concerned. This question is just a game played by a few politicians. Voters have to determine whether a candidate is good or not. It is perfectly all right if the Taiwanese candidate can do a good job. What is wrong with that!

[Sakai] It is reported that there is always a power struggle within the Kuomintang. A political struggle between the faction in power headed by Li Teng-hua and the faction not in power headed by Hao Po-tsung also mainly exists. This struggle reached a peak when the Hao cabinet submitted its general resignation. It remains a contradiction between mainlanders and Taiwanese at the high level. Is this type of struggle very fierce?

[Chao] I believe that the issue of mainlander versus Taiwanese is ... Because our political system is not so clear-cut, it is neither a presidential system nor a cabinet system. It is something in between. Some kind of compromise is needed between the president and the premier. There will be many problems, if both of them have strong characters. Both President Li and Premier Hao have strong characters. Therefore, some problems have cropped up. These problems are used by some people to split mainlanders from Taiwanese. Their methods in this connection are often effective, because these problems are sensitive ones. I never believe that there is any so-called political struggle between the president and the premier. The president has always held power in his hands, and Hao Po-tsung always seek to coordinate with him. However, if you cooperate with him in 95 out of 100 cases, and you disagree with him in five cases, you are in trouble. It is difficult to go along with the president 100 percent. A premier is not a boy! Hao Po-tsung himself said once that it is hard to do a good job without Li Teng-hui's support.

[Sakai] The New Kuomintang Alliance always heaps sharp criticisms at Li Teng-hui. What are the key issues? Does it mean that he acts like a dictator in playing politics, or his political views are ambiguous?

[Chao] As a president, his capabilities are questionable. Originally the Kuomintang was an unified, fine party. Why is it in such shape today? Anyway, it does not make sense, if you say that as a chairman of the Kuomintang, he is not responsible for all this. When a company is in a mess and there is dissension and discord everywhere, the general manager says that this is somebody else's fault. The manager is no good. Nor are the staff members and workers, but I am good. That is ridiculous. As a commander-in-chief, he is oversensitive, not magnanimous. In the field of politics, people must be magnanimous. For example, there are many factions in Japan's Liberal-Democratic Party. Everyone can sit down and talk. There are also different views within the British Conservative Party. In politics, different politicians have different background and pressure, representing people of different strata. Therefore, they have different views. You cannot say that you are smarter than other people, therefore all other people must obey you and not voice different opinions. This is an outstanding problem. In addition, we must hire people impartially. We should not hire only those who are absolutely obedient or people who are on our own side. Other people will feel resentful, if they see such injustice. It is necessary to set up a system. Let us talk about the appointment of the members of the Control Yuan and the revision of the Constitution. Originally, members of the Control Yuan are able to impeach the president and the vice president. How can they be nominated by the president? How can these members of the Control Yuan nominated by the president impeach him later? This runs counter to the principle of democracy.

[Sakai] According to my understanding, Li Teng-hui has his own idea about constitutional reform. However, he

still needs to go through a process in promoting political reform and democracy. What is your opinion on his constitutional reform? Do you agree with direct presidential election?

[Chao] I agree. However, as of now, I cannot perceive any of his ideas about constitutional reform. The more he reforms, the more he centralizes his power. As for direct presidential election, we should follow the example set by the United States. The U.S. President should be held responsible for the United States. It is not right for a president to have the power of the party, the government and the armed forces in his hands, while he does not hold himself responsible to the congress. The most important thing in promoting democracy is balance. A person who has power must assume responsibility, while a person who assumes responsibility must have power. The greatest problem in Taiwan today is that those who have the power do not assume responsibilities, while those who assume responsibilities have no power. The premier has no power, and he cannot make any decision on the appointment of his cabinet members. However, he has to go to the Legislative Yuan to face the interpellation and embarrassment from the legislators. As for the president who actually makes policy decisions, he does not need to keep himself in balance. This is not democracy. In the whole world, there is no state leader like Li Teng-hui who has the power of the party, government and armed forces in his own hand, and nobody can restrain him. There is a problem in the system. I am not against him personally. Constitution must be reformed based on the principle of keeping things in balance. It is not right that the president himself decides who should become members of the Control Yuan. President Li has greater power than Gorbachev of the Soviet Union, Russia's Yeltsin and Teng Hsiao-ping of the Chinese Communists. He has power, but accepts no supervision. As a foreign reporter, can you tell me who can supervise President Li today? If he makes a mistake, who can say: "President Li, you are wrong." This is a dangerous system.

[Sakai] In the future, should Taiwan follow the U.S. presidential system or Japan's cabinet system?

[Chao] Either one is all right. However, if we emulate a foreign system, we must make our system and the foreign system very much alike. We must not make them half alike. Whatever will benefit you, you emulate. Whatever will not benefit you, you refuse to emulate. (laughter)

[Sakai] Originally Taiwan implemented the five-power constitutional system (executive, legislative, judiciary, examination and supervisory or control powers). There seems to be a problem. Is this system going to be changed?

[Chao] I agree on this. If there is any change, the whole system should be changed. It should not be changed to a system of four and half powers. What kind of thing is this? It will be worse than the original five-power system!

[Sakai] Prior to May 1995, Taiwan will decide the form of "presidential" election. If everyone agrees that the president should be directly elected by citizens, will you run for the presidency?

[Chao] I will. I said that I will. I believe that young people should be allowed to step forward. In three years, I will be 46. I will be as old as Clinton. Older people should leave. Old people politics should go away.

[Sakai] If you want to run for president, you inevitably need to expand your own political influence. I heard that the New Kuomintang Alliance will register itself as a political group. Is that true?

[Chao] Yes. We will become a [political] group.

[Sakai] Would your political group become the only one in the Kuomintang?

[Chao] No. There are many political groups in the Kuomintang. For example, Mr. Mah Soo-lay's Great Alliance for Reunifying China With Three Principles of the People was a political group. Mr. Chiu Chuang-huan's Society for State Policies is also a political group. Therefore, there are many political groups.

[Sakai] Is there any problem registering the alliance as a political group?

[Chao] I believe that there is no problem, but they think that there are problems! (laughter)

[Sakai] You just said that there are many political groups in the Kuomintang. Why can't various political groups be included in the Kuomintang just like those within Japan's Liberal-Democratic Party?

[Chao] Because, there was no democracy within the Kuomintang before. There has never been real democracy in the Republic of China. If there is democracy in the Kuomintang, it will be possible to have more political groups in the Kuomintang.

[Sakai] Perhaps, is it because of the existence of political strongman?

[Chao] Right. He suppressed all of them.

[Sakai] Will powers be distributed in the future?

[Chao] I think, it is possible.

[Sakai] Lien Chan's nomination as premier has passed the Legislative Yuan. What do you think about Lien Chan?

[Chao] As seen from what he did when he was Minister of Telecommunications, Minister of Foreign Affairs and Governor of Taiwan, he is just about average. Whether he can make breakthroughs after he becomes the premier, I don't know. He is a comparatively moderate person. He is more conservative, but he lacks initiative.

[Sakai] How about his leadership?

[Chao] I cannot tell. I could not see that he had any special talent before. I believe that there will not be any problem between the president and the premier. The premier's opinion is just the president's opinion.

[Sakai] The New Kuomintang Alliance is prepared to put forward the "Sunshine Bill" demanding that Lien Chan make public his family assets. Is this bill ready?

[Chao] It is ready. In fact I submitted it to the Legislative Yuan in 1989. It has never been examined. This time, I have submitted a revised version.

[Sakai] The Democratic Progressive Party also has submitted a similar bill.

[Chao] Yes. This bill should be adopted. I hope that it will be adopted in a year.

[Sakai] What is your motive in submitting this bill?

[Chao] It is aimed at improving political transparency and guarding against money politics. Right now, money politics prevails in Taiwan. It is legally out of control. It is dangerous.

[Sakai] During last year's election, I believe that you did buy votes. However, many other candidates bought votes.

[Chao] Right. Many people bought votes. However, the result showed that voters in Taiwan made progress. Many candidates who bought votes failed to win, while those who did not buy votes won. That shows progress.

[Sakai] The bill you have prepared demands that cabinet members and government officials make public their own assets?

[Chao] Right. Also, once elected, they can no longer make investments, and must place their properties in trust.

[Sakai] This is even more radical than the present situation in Japan.

[Chao] We are more radical, because we are late in enacting the law.

[Sakai] Is the New Kuomintang Alliance opposed to Taiwan Independence?

[Chao] I think, it is impossible for Taiwan to become independent. Also, independence is harmful to Taiwan. For the future of the 20 million people in Taiwan, what kind of sense does this kind of stand make? Also, we do not agree with the suggestion that we should reunify with the mainland now.

[Sakai] Then, under what conditions can reunification be achieved?

[Chao] It is only possible when the mainland gradually becomes democratic, its economy flourishes and the conditions on both sides are closer. Right now, conditions are still far apart. I think, the confederation system

may be used at the beginning, supplying each other's needs economically. We should begin this practice in economic affairs.

[Sakai] Exchanges between the two sides have become more frequent in the past several years. Some people say that this kind of exchange will promote reunification, because the two sides will become closer and closer politically. Do you agree with this view?

[Chao] I believe that reunification cannot be achieved at such a speed. There is no basis right now. We should supply each other's economic needs first. Then we will gradually see. There is no hurry on this.

[Sakai] Teng Hsiao-ping put forward the idea of one country, two systems. Do you think that it is entirely unacceptable?

[Chao] I think it is too early to talk about this. For example, the implementation of the confederation system at the early stage is more feasible, because both sides deal with each other on an equal basis. In his idea of one country, two systems, Teng Hsiao-ping means that the mainland represents the central authorities, and Taiwan represents the local authorities. I think, it is not likely that Taiwan will accept this interpretation. Besides, Teng may suddenly turn hostile anytime. How can Taiwan trust him? The Communist Party is not trustworthy.

[Sakai] The Democratic Progressive Party advocates one China, one Taiwan. Do you agree with it?

[Chao] I would agree if it is one mainland, one Taiwan.

[Sakai] You mean that under the prerequisite of one China, you can accept the term of China (Beijing), China (Taiwan)?

[Chao] I think, whether terms of "China," "People's Republic of China," or "Republic of China" are used, they are just names. However, the most important thing is reality. In reality, there is one China, one Taiwan. Therefore, I think about the confederation system. Under this system, there will be one People's Republic of China, one Republic of China, or one mainland, one Taiwan. This is also a form. It will be difficult for whoever you ask to change his name. No one is willing to change his name. Why should the mainland change its name? I don't believe that it will change.

[Sakai] Do other members of the New Kuomintang Alliance agree with the confederation system?

[Chao] We have not discussed this system yet. This is my personal view. The Chinese Communists should let us have more space to move about. Right now, the national per capita income in Taiwan is more than \$10,000. Naturally, Taiwan is not happy about the pressure given it by the mainland. Taiwan is an independent entity. This is a reality. Both sides should respect each other. As for the future, we may follow the changes in the trend of the times and take time to decide. Right now, it is too early. In the future, when Teng Hsiao-ping dies, people of the next generation may think differently. I think, it is impossible to reunify at one fell swoop. It is necessary to take time to cooperate with each other first, try to understand each other, and gradually reduce hostility. One cannot achieve this in a hurry.

[Sakai] Have you ever visited the mainland?

[Chao] I have never visited the mainland.

Guangzhou's Experience Guide to 1997 Takeover

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pp 16-19

[Article by Wan Lihang (8001 6849 5887): "Guangzhou's Experience Provides Clues to the Takeover of Hong Kong"]

[Text] This is the broad outline of the policy China will follow in Hong Kong in the first few years after taking over it: rely on Chinese capital, ally itself with local Chinese capital, woo friendly foreign capital, and isolate and undermine anti-Chinese foreign capital.

With Sino-British relations deteriorating and China taking the first steps to work out a plan to take over Hong Kong, we interviewed several comrades involved in the takeover of Guangzhou before and after liberation and asked them to relate their experience in taking over Guangzhou's economy and speculate about the principles that China may follow when it takes over Hong Kong's economy in the future.

Guangzhou Economy: Takeover and Development

No sooner was Guangzhou liberated on 14 October 1949 than a military control commission was set up along with three subordinate committees—political and legal, financial and economic, cultural and educational—to begin takeover work on all fronts. Even before takeover, the underground CPC organizations at all levels had conducted detailed studies on the administrative setup, personnel, materials, and equipment of all economic sectors and large industrial and commercial enterprises. This enabled the takeover to proceed smoothly. By the end of October, the financial and economic committee had taken over 161 units including banks, factories, warehouses, radio stations, railroads, posts and telecommunications, and provincial-run industrial and commercial enterprises. With the exception of a handful of factories, most units managed to operate normally in the course of takeover. All the sectors mentioned above had been under KMT control or included KMT officials among their shareholders. This is why those units, known collectively as bureaucratic properties, were confiscated and became part of the state economy after takeover. Henceforth they came under the direct control of the Chinese Communist regime.

As for industrial and commercial enterprises on a smaller scale with no direct impact on the people's livelihood, they were all referred to as national bourgeoisie provided the enterprises were completely privately owned. The government set out to win over and ally itself with them. In the first two years after liberation, the CPC placed orders with them for processing materials or supplying manufactured goods, allowed them to sell goods to the state on a commission basis, and imposed a state monopoly on purchase and marketing. These moves gave the private industrial and commercial operators specific rights to produce and

market their products under the control of a state economy and make some profit. At the same time, by selling bonds, inspecting taxes, and demanding the payment of overdue taxes, the government also rendered most private industrial and commercial enterprises profitless. Some even began to lose money.

Starting in 1952, the CPC applied a policy of joint state-private ownership to private industry and commerce. The state bought into private enterprises using the supply of materials as capital stock and also sent official representatives there, thus basically bringing such enterprises under state control. With the introduction of industry-wide joint state-private ownership in 1956, all private enterprises were converted into government properties. All the capitalists were entitled to was to collect fixed interest each year for a period of 10 years at the annual rate of 8 percent on the total value of their properties at the time of stocktaking when joint state-private ownership was introduced. Even as they were collecting fixed interest during these 10 years, the capitalists did not own the enterprises and had no power to operate them. After 10 years, they owned absolutely nothing.

In other words, it took about seven years for the Chinese Communist regime to complete the confiscation of existing public and private enterprises in Guangzhou as well as other large, medium-sized, and small cities across the nation.

How the Takeover of Hong Kong Will Differ From That of Guangzhou

According to several elderly cadres who took part in the takeover of Guangzhou and are still involved in economic work in Guangdong Province and Guangzhou today, the takeover of Hong Kong in 1997 will differ enormously from that of Guangzhou in the 1950s.

Ever since the day it was liberated, there was absolutely no doubt that Guangzhou would follow the Soviet road and build a socialist economic system where all economic activities would take place under the control of a state economy at the command of the CPC. Hong Kong, in contrast, will be a special region whose capitalist system Beijing has pledged to keep unchanged for 50 years.

In Guangzhou, public utilities (water, power, transportation, telecommunications) as well as a number of large factories were run by the government or bureaucratic capitalists with close ties to the government. After the Chinese Communist regime was established, these enterprises were of course confiscated and absorbed into the state economy. In Hong Kong, however, such enterprises are privately-run. In the 50 years in which capitalism will remain unchanged, the CPC will not be in a position to confiscate them.

In Guangzhou, privately-run radio stations, newspapers, publishing houses, and magazines were prohibited from operating by the CPC in the name of consolidating proletarian dictatorship. Subsequently they were confiscated and became the party's own newspapers and radio stations. Hong Kong, on the other hand, will keep its

capitalist system and freedom of speech as provided for under the Basic Law. The CPC cannot stop the operations of the mass media without cause, let alone taking them over.

The CPC had a powerful underground organization in Guangzhou. Not only did it know the situation in the public economic sector like the palm of its hand, but it had also organized factory escort teams and railroad escort teams to supervise and assist the takeover. Underground party organizations were also active in private enterprises. The first five-star red flag, for instance, was hoisted atop East Asia Hotel (now Sincere Department Store), then part of the four-company group. In contrast, underground CPC organizations in Hong Kong are a pale shadow of their counterparts in Guangzhou back then, at least for now. They are still incapable of disrupting private enterprises.

Capitalists who operated private enterprises in Guangzhou removed their funds abroad (including Hong Kong and Macao) before liberation but were powerless to send their other assets overseas or conceal them. After liberation, therefore, they were entirely at the CPC's mercy. The Chinese Communists placed orders with private enterprises for processing materials or supplying manufactured goods, imposed a state monopoly on purchasing and marketing, and introduced joint state-private ownership. All the capitalists could do with this string of policies was to comply with them. Hong Kong, in contrast, is an international city. The steady outward migration of enterprises from Hong Kong is expected to continue through 1997. Even after takeover, the capitalists can transfer their funds overseas at the first sign of trouble, something the Chinese Communists would find it hard to control.

Similarities Between Takeover of Hong Kong and Takeover of Guangzhou

These people, who have long been involved in economic work, also pointed out that notwithstanding the fundamental differences mentioned above, there will be similarities between the takeover of Hong Kong and that of Guangzhou.

Both the special region of Hong Kong and Guangzhou will be under one-party dictatorship by the CPC. Hong Kong will have no choice but to follow the same policies that will be formulated as socialism evolves in response to changing conditions. Hong Kong capitalists may transfer their floating capital overseas anytime they wish, but they cannot remove their fixed assets any more than their old Guangzhou counterparts. In the long haul, all these fixed assets will be the foundation of the state economy in China. Although the underground CPC organization in Hong Kong is fairly weak at the moment, it is poised to grow rapidly in the next four years and a half as waves of party members start descending on Hong Kong on a one-way ticket. By 1997, the CPC will be a much stronger force here. Even if it will not play as critical a role as it did in the economic takeover of

Guangzhou, it will be an important factor in the takeover of the Hong Kong economy as well as its development in the future.

Orientation of China's Policy Toward Hong Kong

To speculate about what China will do to take over Hong Kong economically, these people say, we must begin by understanding the orientation of China's Hong Kong policy.

In China, politics determined everything in the past and will continue to do so in the future. All work (certainly including economic work) serves politics. Specifically, economic work under Chinese Communist rule must contribute to strengthening, or at a minimum not weaken, one-party dictatorship. The so-called "socialist market economy" is a formula that has been chosen to promote economic development under one-party CPC dictatorship by using the experience of capitalism.

Under "one nation, two systems," Hong Kong (as well as Macao and Taiwan) will be allowed to retain capitalism within the framework of a socialist nation. But that kind of capitalism absolutely cannot be allowed to affect or interfere with socialism (i.e., one-party CPC dictatorship). It absolutely does not mean that the two systems are on a par or that the two can develop freely. Moreover, the Chinese Communists still believe that socialism will triumph over and replace capitalism one of these days. How else to explain the "unchanged for 50 years" rule?

This is the basis of everything China does in Hong Kong, including its attitude in the current squabble with the British and its interpretation of the Basic Law. In other words, capitalists will still be able to make money in Hong Kong after 1997. Provided their profit-making activities will benefit the Communists' socialist market economy and help strengthen one-party dictatorship, the Chinese Communists will not intervene and may even encourage them. Needless to say, when their activities affect one-party rule, however, some people within the CPC will say Hong Kong is "peacefully evolving" the mainland, followed inevitably by a change in policy.

The several elderly cadres said most emphatically that it is premature to speculate at this point about what China will do to take over Hong Kong after 1997 for the reason that the situation is every-changing. Within the CPC, the struggle between the reform faction and conservative faction has not been resolved; China may yet become more open and democratic. In Hong Kong, the confidence of the people and the movements of local capital will also change over time. Hence they cautioned repeatedly that the exploratory opinions below have been put forward based only on the current situation.

Rely on Chinese Capital, Unite Chinese Hong Kong Capital

According to the cadres, the economic policy in Guangzhou in the first few years after liberation was to rely on the state economy, unite with the national bourgeoisie,

and isolate and undermine bureaucratic capitalism and the comprador economy. A similar policy will probably be applied to Hong Kong immediately following 1997.

Specifically, this means: rely on Chinese capital, unite with Hong Kong Chinese capital, woo friendly overseas capital, and isolate and take strong actions against anti-Chinese foreign capital.

As they see it, Chinese capital is bound to grow rapidly as a force in the next four years and a half. Right now large Chinese-funded enterprises under the control of the central government are investing large sums of money in Hong Kong. In addition, local small- and medium-sized enterprises owned by the province of Guangdong and its many municipalities and counties are also booming. Barring unforeseen events, Chinese capital is expected to account for one-fifth to one-quarter of Hong Kong's entire economy in 1997. By that time Chinese-owned organizations will have a substantial impact on the Hong Kong economy.

Chinese Hong Kong capital is a vital force in the local economy. As part of its united front, Beijing has established friendly relations with many local Chinese captains of industry. Again, barring any untoward events, most Chinese Hong Kong capitalists will remain in Hong Kong. To ally itself with them, the CPC will not take any move against them in the short haul, such as joint state-private ownership. On the contrary, it may even adopt administrative measures to liberalize the policies and elevate their political status so that they work together with Chinese capital to jointly develop the Hong Kong economy.

To a large extent, the alliance between Chinese capital and Chinese Hong Kong capital will be a controlling force in the local economy. Its success will depend on whether or not local Chinese capital will embrace one-party CPC dictatorship and support the drive for development by Chinese capital. It will also depend on whether or not the Chinese Communists decide to speed up the pace of democratization in Hong Kong and

preserve its freedom. If the Chinese Communists come across as an enlightened ruler, friendly foreign capital too will continue to seek development in Hong Kong.

Gradually Tightening Its Grip

Under this policy, the CPC may well take the following steps. For starters, take over enterprises under the Hong Kong government, such as the Foreign Exchange Bureau, Waterworks Department, and Radio Hong Kong. Next, tighten controls on public utilities, including railroads, the subway system, bus companies, power companies, telecommunications, wharves, and other enterprises that directly impact the people's livelihood. Through administrative actions, it will also give Chinese capital and local Chinese capital control over the utilities to safeguard the people's livelihood. Meanwhile, it will increase the volume of money the Bank of China can issue and gradually intensify government control over the financial market. Furthermore, the Chinese Communists will step up their control on industry, commerce, and foreign trade by working through party members or party organizations in trade unions, chambers of commerce, and the federation of industry as well as foreign trade organizations already part of the government. That way the entire Hong Kong economy will come under the effective control of the government of the special administrative region.

After a period of time, the Chinese Communists will definitely integrate the Hong Kong economy into the universe of the Chinese economic system, namely, a socialist market economy. How long will this process take? How much integration will there be? The answers to these questions will depend on how long the Chinese Communists will take in putting together a socialist market economy and the shape of such an economy. At any rate, as a special region of a socialist nation, Hong Kong will not continue to go it alone economically forever.

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